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**The Promotional Decision Process in Small
Consumer-Oriented Retail and Service Firms:
A Survey Analysis**

presented by

Judy Foster Davis

has been accepted towards fulfillment
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Major professor

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THE PROMOTIONAL DECISION PROCESS IN SMALL
CONSUMER-ORIENTED RETAIL AND SERVICE FIRMS:
A SURVEY ANALYSIS

By

Judy Foster Davis

A DISSERTATION

Submitted to
Michigan State University
in partial fulfillment of the requirements
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ABSTRACT

THE PROMOTIONAL DECISION PROCESS IN SMALL CONSUMER-ORIENTED RETAIL AND SERVICE FIRMS: A SURVEY ANALYSIS

By

Judy Foster Davis

A comprehensive mail survey was answered by 144 small retail and service firm owner/managers with respect to how advertising and promotion decisions were made. The key issues under investigation were: 1) Is there a normative process demonstrated by small business decision-makers when making promotion decisions? 2) Are large firm models of decision processes appropriate to the study of promotion decisions in small firms? 3) Which factors exert the greatest influence on promotion decisions in small firms? 4) Do decision behaviors vary significantly between entrepreneurs who have experienced formal marketing education and those who have not?

Using a variety of statistical techniques, including regression analysis and analysis of variance, the findings suggested that small business decision-makers demonstrate a normative process when making promotion decisions and that this process is not appropriately described by large firm decision process models. A model of the promotional decision process in small firms is presented in the dissertation. The findings also indicated that image of the firm, financial resources, and target audience concerns

exert the greatest influence on promotion decisions in small firms.

The data also suggested that decision behaviors do vary significantly between those entrepreneurs who have experienced formal marketing education and those who have not. When considering promotion opportunities, decision-makers who have experienced formal marketing education utilize decision methods which are more objective in nature and consult more sources of information than their counterparts experiencing no formal marketing education. When evaluating past promotion activities, decision-makers with and without formal marketing education are likely to use subjective evaluation techniques. However, those with formal marketing education have a greater tendency to actively evaluate past promotions and to supplement subjective evaluation techniques with techniques described as moderately objective.

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This work is dedicated to my late great-grandmother, Bessie "Mee-mee" Wilson. Although she did not see this research completed, her memory inspired me to finish this work.

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CHAPTER ONE

INTRODUCTION

In recent years, popular, trade and academic literature has reflected increasing interest in small business topics. Scholarly research directed at entrepreneurship and small business issues has increased significantly over the last fifteen years. Vesper (1987) argued that the study of entrepreneurship has begun to take on the characteristics of a legitimate academic field, while Hoy (1989) noted that far more opportunities for small business research and scholarly publication exist today than just a few years ago.

Despite the increased attention directed at small business issues, the total amount of research in this area has lagged significantly compared to that in other academic disciplines (Vesper, 1987). Marketing topics, in particular, have received relatively little attention. Davis et al. (1985) provided empirical data which showed the modest level of attention that has been directed at marketing issues in small firms and called the situation a "paradox," given the substantial economic contributions of small businesses to the economy. Despite academia's relative neglect of small business marketing topics, Morris and Paul (1987) found entrepreneurs to be very interested in marketing issues. Several studies (Wichmann, 1983; Carson, 1985; Cameron, 1985; Dunn et al., 1986; Peterson, 1989; Dodge & Robbins, 1992) suggested that small business

entrepreneurs perceive marketing to be one of the most problematic areas of management and face significant difficulty in making marketing decisions.

The major focus of this dissertation is a marketing subtopic: advertising and promotion decision-making in small firms. Consistent with the scholarly neglect that has faced marketing topics in small firms, the subtopics of advertising and promotion have also received little attention. Similarly, theory development in the area of promotion decision-making in small firms has been virtually non-existent. This phenomenon is looked at with concern, as small businesses have been heralded as the new economic growth leaders, as advertising and promotion expenditures continue to grow, and as business leaders consider new ways to make business decisions.

Contemporary Issues Related to Small Business Management

Integrated with increased emphasis on small firms and marketing topics are concerns about business management styles and the competitive viability of firms during the 1990s and beyond. In the January 1991 issue, editors of the Journal of Small Business Management argued that "the requisite managerial mind-set for the 1990s can best be described as entrepreneurial" (see v. 28, p. 97). They suggested that appropriate managerial decision models for the contemporary business environment, exemplified by

Peter's (1988) "Fleet of Foot" organization model, be characterized by flexibility, adaptiveness and action. They also emphasized that non-traditional approaches to decision-making may be required for organizational survival.

Further, Chipeddi and Wallet (1991) suggested that in large firms of the future, layers of management will continue to be streamlined and management hierarchies will be replaced by networks. This emphasis suggests that decision models that have traditionally been applied to business study be reevaluated and that new models be explored.

Contrasting Characteristics in the Study of Large and Small Firms

In considering issues related to the study of business firms, a question as to why there should be a distinction between small and larger firm theories is raised. From both academic and practitioner perspectives, there are compelling reasons why popular traditional business decision theory models may be inappropriate for the study of small firms and entrepreneurial activities. Popular traditional business models often overlook the severe resource constraints, excessive environmental dependence, and managerial limitations typically faced by small firms. In addition, many well-known business theories and models emphasize complex and decentralized organization structures not normally represented in small firm settings. (Specific theories and models indicated here will be discussed in Chapter Two.) Therefore, contemporary scholars have begun

to build theory that is pertinent to the study of small firms. For example, Stevenson (1983) developed a model which not only illustrates characteristics of small firms, but also contrasts these with management orientations in large firms. This model is depicted in Figure 1.1. The Stevenson model implies that because large firms are driven by such factors as control of current resources, ownership and employment of resources, formalized planning systems, functional, decentralized management systems and so on, decisions are made from a very different perspective than in small entrepreneurial firms. Small firms, as Stevenson shows, are driven by the perception of opportunity (rather than control of resources), use or rent resources sporadically, and use informal, non-specialized information networks and centralized decision systems. Because there is such a large difference in the perspectives driving decisions in large and small firms, classic theories of planning and decision-making that are routinely applied to the study of large firms may be ill-suited to small business study. In addition, it can be argued that the centralized management structure of the typical small firm has a major impact on how decisions are made in the firm. This idea is elaborated upon in Chapter Two.

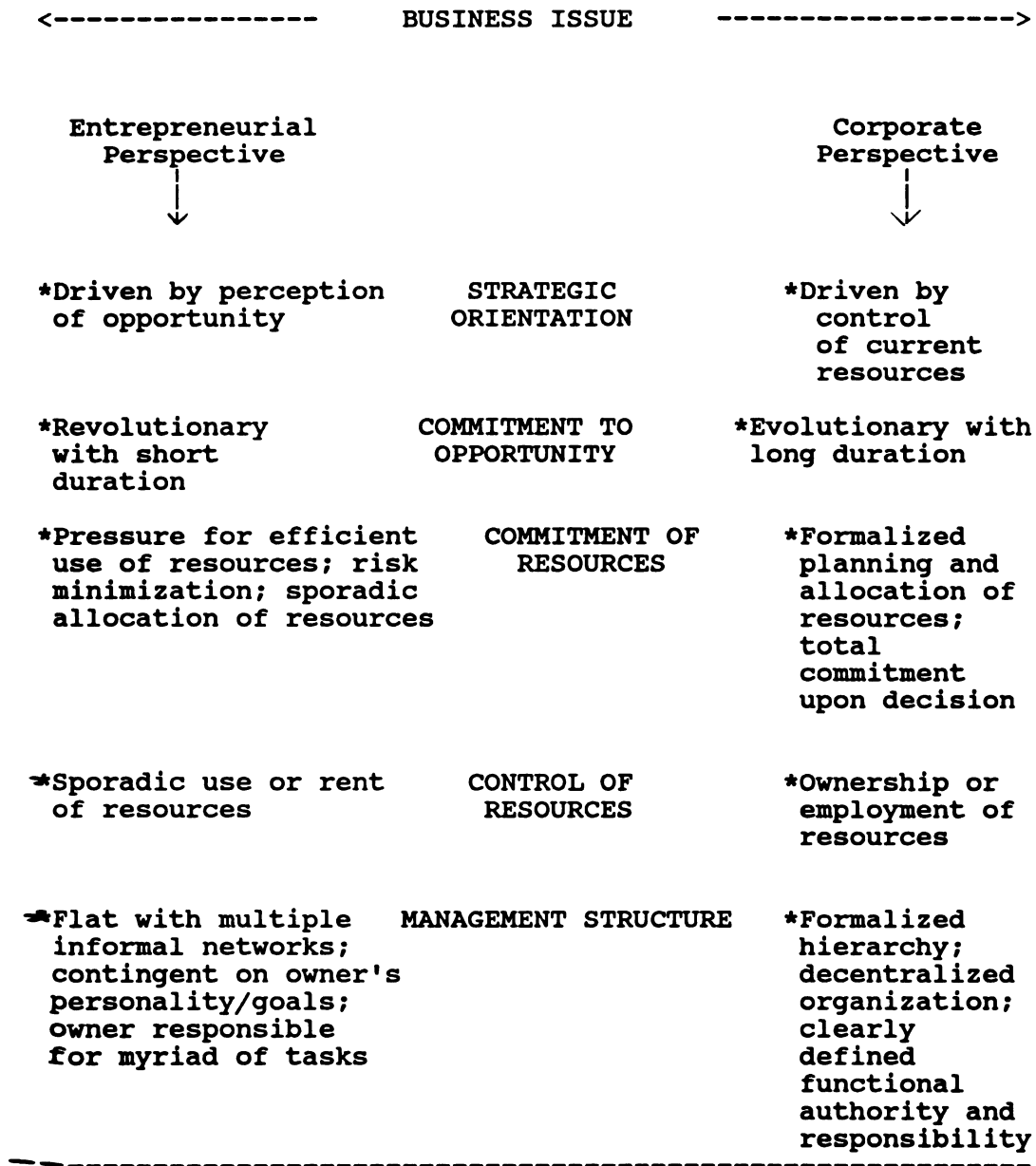


Figure 1.1. Stevenson's Continuum of Issues for Business Study

Decision-making in Small Firms

The literature identifies three major models of decision orientations: the Classical Rational Decision theory; the Bounded Rationality Decision theory; and the Social (Open) System model. Each model is characterized by decreasing degrees of analytical rigor and objectivity, respectively. (The models are discussed in Chapter Two.) Popular opinion has suggested that decision behaviors in small firms might be most appropriately described as haphazard and disjointed with emphasis on guesswork or intuition. These behaviors most closely correspond with the Social System decision model. However, only two studies have provided empirical data on decision-making orientations in small firms. Smith et al. (1988) compared decision behaviors among 15 small business entrepreneurs with 13 managers of larger corporations. They found that small business owners were uniformly less "comprehensive" in their decision-making orientations, gathering less information and performing less formal analysis than their large company counterparts. In the context of the study, comprehensiveness referred to a rational decision process focused on extensive information gathering and generation of a large set of alternative solutions. In addition, Rice and Hamilton (1979) performed a study of 35 small retail, service and wholesale firms and observed the following:

1. Small business entrepreneurs applied an average of 4.3 factors to each decision. The four variables identified most frequently as decision input factors were: 1) customer relations, 2) experience 3) technical information and 4) financial condition of the firm. Respondents did not perceive any one decision factor to be superior to others.
2. Multiple responsibilities of the entrepreneur forced decisions across a wide variety of functional areas, however, the depth of analysis was sharply limited by the ability to process available information.
3. Some entrepreneurs stated that their decisions were based on "experience," "intuition," or "guesswork" (although no precise figures were provided).
4. Entrepreneurs appeared to accept "satisfactory" answers rather than seek optimal solutions to problems.

The empirical evidence suggests that decision orientations in small firms might be appropriately described by either Bounded Rationality or Social/Open System theory depending upon the orientation of the decision-maker(s). Unfortunately, the small sample sizes and the lack of detailed statistical data provided by the two studies cited here preclude broad generalizations. Despite this limitation however, it can be argued that the operative decision orientation in small firms has a tremendous impact on the manner in which decisions are made.

Purpose, Significance, and Contributions of the Study

The primary purpose of this dissertation is to provide a better understanding of how advertising and promotion decisions are approached in small firms. To accomplish this, attention will be focused on: 1) examining

organizational structure; 2) describing decision orientations; and 3) identifying factors which influence promotional decisions in small businesses. Analysis of these variables will allow for the development of one or more models which illustrate the promotional decision process in small firms. This is a promising topic for academic work, since no scholarly research has been directed at this issue. Practitioners also seem to be curious about this area, wondering how they might apply research findings to their own situations. The current state of knowledge in this area appears to be fueled largely by speculation, a tendency to over-generalize, limited personal contact by scholars with small business owner/managers, and tentative conclusions from empirical work, often based on tiny sample sizes.

This research focuses on consumer retail and service firms, since statistics show that, among all industries, retail and service firms are among the heaviest users of advertising in the U.S. (see Appendix I). Similarly, Schultz and Robinson (1982, p. 4) and Blattberg and Neslin (1990, p. 15) provide estimates which suggest that sales promotion expenditures make up a significant portion of the total marketing budget for retail and service firms.

This study differs significantly from previous research on advertising/promotion issues in small firms. A review of the literature indicates that most substantive advertising/

promotion research and theory development has tended to overlook small firms. Analysis of advertising and promotion decisions in small firms by scholarly researchers has largely been of an "exploratory" nature, characterized by very small sample sizes, focus limited to one type of industry, lack of substantial empirical work and/or tentative findings (Brockhaus, 1987; Cooper & Dunkelberg, 1987; Vesper, 1987; Low & MacMillan, 1988). Other scholarly and practitioner-oriented literature has been overwhelmingly prescriptive, offering "how-to" advice to entrepreneurs, with little or no analytical work performed to substantiate conclusions (see Dean, 1980; Boughton, 1983; Cassell, 1983; Gray, 1984; Keown, 1983; Lincoln & Naumann, 1982; McDaniel & Parasuraman, 1986; Seglund, 1985; Lewis, 1990). Moreover, little theory development has accompanied the empirical small business marketing research. This dissertation research is based upon a larger sample size, so that findings may be more generalizable; looked at a greater variety of firms; and emphasized the development of theoretical models pertinent to the topic.

It is anticipated that this research will make several contributions to the field. Specifically, this research provides:

- 1) Relevant modeling which describes approaches to promotional decisions in small firms;
- 2) A comparison of promotional decision processes in small firms with large firm (corporate) promotional decision models;

- 3) An assessment of the relative weight of various decision input variables on promotional decisions in small firms.
- 4) A comparison of decision approaches among small business decision-makers who have received marketing education with those who have not.

This research should aid in developing theoretical concepts more appropriate to understanding promotional decisions in various types of small firms. This work may be valuable in assessing marketing education directed at small business entrepreneurs and students. The question of appropriateness in marketing education is particularly relevant to small firms, as entrepreneurs engage in coursework and consultation sponsored by the SBA and universities. For students and practitioners, the research may suggest that popular traditional decision models studied in business education be replaced by theories more pertinent to conditions facing the small firm.

Problem Statement

In order to remain focused on the central issues of the dissertation, several research questions were developed to guide the research. They are:

1. Is there a "typical" or normative process demonstrated by decision-makers in small firms when making promotional decisions? How might these processes vary among different types of firms?
2. Are large firm models of promotion decision processes appropriate to the study of promotion decision-making in small firms?

3. Which factors exert the greatest influence on promotion decisions in small firms?
4. Do decision behaviors vary significantly between small business entrepreneurs who have received marketing education and those who have not?

Organization of the Dissertation

This dissertation is organized into five chapters. Chapter Two reviews the literature and provides the framework for the theoretical base which guides this research. Chapter Three provides the design and results of a preliminary qualitative phase of data collection and describes the quantitative research design, sample and instrument in detail; this chapter also lays out the research hypotheses. Chapter Four reports findings of the statistical analysis and hypothesis testing. Chapter Five discusses the key findings and their implications, and uses this information to develop a model describing the promotion decision process in small firms; limitations of the research are indicated and directions for future research are also suggested.

CHAPTER TWO

REVIEW OF THE LITERATURE

The literature review consists of an integration of subjects related to the topic. A definition of small business is provided, along with a description of typical characteristics and developmental stages of small firms. Next, a theoretical framework for the research is presented, which indicates how organizational structure, decision orientations, and various advertising/promotion-related decision variables influence the promotional decision process in small firms. The literature review concludes with the development of a conceptual model, based on the literature, which attempts to explain the advertising/promotion decision process in small firms.

Definitions and Characteristics of Small Businesses

Small Business Definitions

Despite the increased attention directed at small business issues, the concept of what constitutes a small firm has been somewhat ambiguous. The U.S. Small Business Administration, in Section 3 of the Small Business Act of 1953, defined a small business as "one which is independently owned and operated and which is not dominant in its field of operation." Nappi and Vora's (1980) survey of U.S. state agencies revealed that fourteen states utilized the federal definition of small business, fifteen

states had their own definition and twenty-three had none. Peterson et al., (1986) surveyed U.S. households and found that the majority of the public believed small businesses were characterized by 1) family ownership; 2) one location; 3) fewer than 100 employees; and/or 4) less than \$500,000 in annual sales.

In response to ambiguity over the definition of small business, the Small Business Administration conducted a four-year project, completed in March 1984, to specify firm size by employee and income criteria, in addition to independent ownership. Using Standard Industry Classification (SIC) Codes, various standards were set for the respective industries. Manufacturing and wholesale firms, with several exceptions, were considered small if they employed 500 or fewer employees. Size standards for retail, service and wholesale firms were based on gross receipts, and are listed in Appendix III. Although the SBA's size standards appear to be much more generous than those identified in municipal and state government and public opinion surveys, the SBA reported that the sizes of 88.5% of all small firms fell well below the established criteria for number of employees and level of income (see Handbook, 1988).

Taking into account the scholarly work and the SBA's size standards for firms, for purposes of this research, a firm is considered to be small if it is independently owned,

grosses no more than the SBA's annual revenue standard using the firm's Standard Industry Classification (Appendix III) or employs fewer than 100 people. In addition, this research focuses on retail and service industries where spending on advertising and promotion is a common business practice (see Appendix I).

Characteristics of Small Businesses

In addition to income levels and numbers of people employed, there are other criteria which characterize small businesses. From a theoretical perspective, Churchill and Lewis (1983) developed a conceptual model of small business growth which illustrates firm characteristics at various developmental stages. This model, shown in Figure 2.1, describes the size, age and principal activities of small businesses at each critical stage of development.

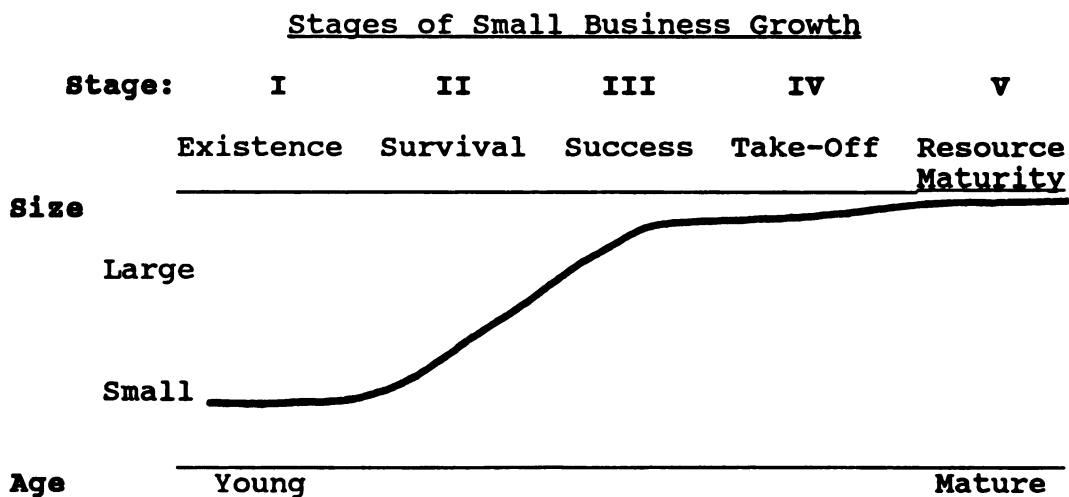


Figure 2.1. Churchill and Lewis' Model of the Stages of Small Business Growth

According to the Churchill and Lewis model, principal activities and characteristics of firms at the respective stages of development are as follows:

- I) Existence - The firm is primarily concerned with obtaining customers and providing products/services. The firm's owner performs all key functional tasks and may supervise a few subordinates. Formal planning and business systems are minimal to non-existent. A common problem in this stage of existence is the inability to attract a sufficient number of customers. If the firm fails at this stage, the owner may close the firm or sell it at its asset value.
- II) Survival - The firm has a sufficient customer base and adequately supplies its products/services. Of primary concern is the relationship between income and expenses. Any planning may concern cash flow forecasting. The owner is still the principal manager, but is concerned with future growth and development. Many small firms remain in the survival stage for an extended period of time. In the case of failure, the firm may be closed or sold at a slight loss.
- III) Success - Firms reaching the success stage have experienced substantial growth, earning average to above-average profits. At this point, the owner may decide to disengage from the firm - by selling at a substantial profit or by delegating operating responsibilities to hired managers. Alternatively, the owner may seek avenues for additional expansion of the firm, perhaps by acquisition or merger with another firm. Failure at this stage is generally related to financial overextension.
- IV) Take-Off - Primary concerns in this phase are delegation of authority and cash flow management. Management of the firm has become decentralized and the original owner/manager may no longer be present. Planning is very formal at this stage

and responsibilities to investors are common. Failure at this stage is generally related to cash flow problems.

- V) Resource Maturity - The firm's management is decentralized and experienced. Planning systems are highly formalized. Financial resources are more than adequate. Primary concerns are growth consolidation and financial control. Inefficiencies may occur as a result of rapid growth. Failure due to resource availability is rare in this stage, but small firms may lose the innovative decision-making and risk-taking orientation that spurred their earlier survival and successful performance.

More recently, Dodge and Robbins (1992) developed a four-stage theoretical model which summarizes main characteristics of small firms at various stages in the life cycle and also indicates typical problems associated with each developmental stage. This model is depicted in Figure 2.2. Empirical data supporting this model showed that small firms experience more marketing-related problems than finance or management problems during each stage of development.

A SUMMARY OF CHARACTERISTICS AND MAJOR SMALL BUSINESS PROBLEMS DURING THE ORGANIZATIONAL LIFE CYCLE				
	Formation	Early Growth	Later Growth	Stability
Characteristics:	Idea to Actuality Develop Business Plan Build Financial Support Identify Market(s)	Rapid Growth Highly Reactive to Market Demands Matching Demand with Supply	Sales Growth Slows Competitive Effort Increases Grow or Maintain Status Quo Develop Controls	Level Sales—May Decline Soon Must Regain Early Momentum Inefficiencies Surface Bureaucratic Management
External Problems:	Market Assessment and Identification Select Location Establish Customer Contacts Plan Marketing Activities	Maintain Customer Contacts Market Assessment and Identification Expansion Location Dealing with Competition	Maintain Customer Contacts Expansion Market Assessment and Identification	Maintain Customer Contacts Market Assessment and Identification Plan Marketing Activities Expansion Location
Internal Problems:	Financial Planning Business Planning Business Knowledge Pricing	Inventory/Cost Controls Cash Flow Financial Planning Accounting Systems Pricing	Inventory/Cost Controls Financial Planning Business Planning Pricing	Inventory/Cost Controls Production/Facilities Pricing Organization Design and Personnel Accounting Systems Financial Planning Business Planning Location

Figure 2.2. Dodge and Robbins' Life Cycle Model of Small Business Characteristics and Problems

Other scholars have focused on small business topics and identified variables common to firms in entrepreneurial settings. Welsh and White (1981) identified "resource poverty" as a key distinguishing variable in entrepreneurial settings. The term "resource poverty" describes the scarcity of cash or that which cash can lease or buy. Typically, resource poverty forces the entrepreneur to spread scarce resources over multiple functional areas. In addition, small firms are often not able to afford to purchase the services of "experts" who could offer assistance in some given functional area(s). Mauer (1987a) suggested that limitations on resources of small firms also preclude achievement of scale economies.

Other distinguishing characteristics relevant to small

firms are high degrees of environmental dependence and uncertainty. Mauer (1988) described this environmental dependence as excessive reliance on external input/output factors. Small firms tend to be more dependent on elements outside of their organization, including suppliers and customers, and exercise less influence over these elements than do larger concerns (Mauer, 1988). Environmental uncertainty refers to fluctuations in economic and social conditions. Boag and Dastmalchian (1988) indicated that small firms face more uncertainty and are more sensitive to minor disturbances in the environment. They also argue that companies which rely on one or a few customers, markets, or product lines do so at substantial risk. Mauer (1987b) suggested that small firms are forced to make choices between increased specialization (brought about by resource poverty) and increased flexibility needed to address environmental changes. Apparently there are trade-offs between the relative degree of specialization and flexibility maintained by a firm; i.e., the risk of increased specialization is focus on an inappropriate activity or market niche, while the risk of increased flexibility is the spreading of scarce resources too thin.

Other distinguishing variables in small firms revolve around the personal goals, personality, talents, and aptitude of the owner/chief operating officer. In 1986, the U.S. Small Business Administration reported that the

majority (69.3%) of small firms were organized as sole proprietorships (see Handbook, 1988). Thus, characteristics of the firm tended to reflect the characteristics of an individual. For example, instead of focusing on growth or profit considerations, the small firm owner may be more interested in retaining control/family ownership or achieving some predetermined family lifestyle (Birley, 1982/83; Birley & Norburn, 1985). Early research indicated that entrepreneurs may desire esteem within the community rather than maximized profits (Stepanek, 1960). Unlike large firms with several managers skilled in various areas of functional expertise, small firms tend to be oriented toward the special talents or interests of the firm's owner/manager. Thus, specific functions, outside of the entrepreneur's interests or abilities, may be neglected.

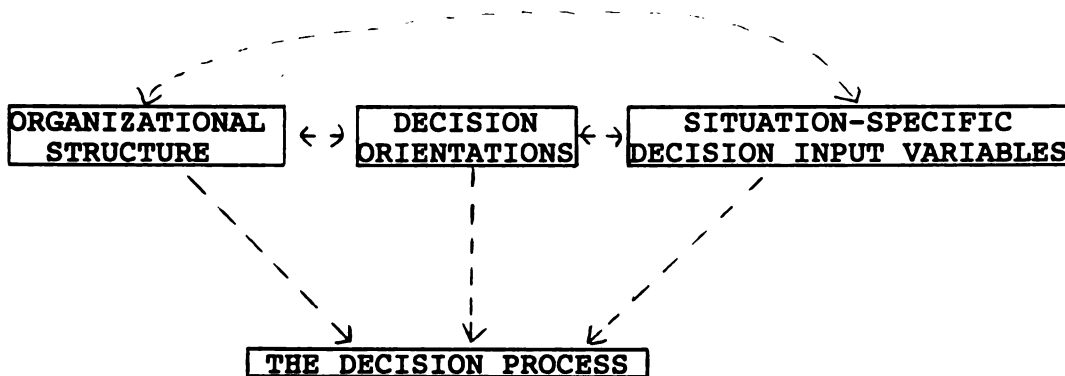
In attempting to maintain control of the firm, despite lack of specialized skills, Pondy (1969) found that small firm owner/managers often were unwilling to employ non-family professional managers. Mintzberg (1979) argued that the lack of resources and the desire to retain control of the firm often reduces the role of a small firm owner/manager to that of a disturbance handler. Thus, most attention of the entrepreneur is directed at handling daily crises and operations with less emphasis on planning or becoming more knowledgeable in areas where the entrepreneur lacks expertise.

Scholars have also looked at age of the firm - the number of years the business has been operating - as a influential characteristic in the study of small firms. As the Churchill and Lewis (1983) and Dodge and Robbins (1992) models indicated, certain activities are thought to correlate with the age and relative size of the small firm. Katz and Gartner (1988) argued that researchers must look at distinctions between emerging small firms and older small firms which have survived the existence stage of development when scholarly analysis is conducted.

This discussion of small business characteristics is useful in understanding the environments in which small firms operate and in understanding typical circumstances faced by small business decision-makers. This information is helpful in putting decision-making activities in appropriate perspective, especially as it relates to decision process modeling.

**Theoretical Framework:
Decision Approaches in Organizations**

The literature suggests that concepts related to organizational structure and decision orientations, combined with decision input variables relevant to a specific situation, are critical elements in understanding how firms approach decision-making. An original conceptual model has been developed which indicates how these elements influence the decision process in organizations. The model is illustrated in Figure 2.3. A discussion of the elements of this model follow.



Where:

The Decision Process describes behaviors or activities and sequences of those behaviors and activities;
Organizational Structure refers to how management authority functions in a firm;
Decision Orientations describe the degree of analytical rigor and objectivity applied to decision-making;
Situation-Specific Input Variables refer to any factors which influence decisions within a broad decision category (i.e. marketing, finance, etc.).

Figure 2.3. Key Elements Which Influence the Decision Process in Organizations

Decision Processes in Organizations

Several theoretical models have focused on the decision process within organizations. Moore (1969), in a widely noted classic model, depicted the components of the organizational decision process. Illustrated as a finite series of steps in the form of rules, Moore's model (Figure 2.4) shows a generic decision sequence, where:

- I = information inputs into the decision process;
- S = stimuli which trigger the decision situation;
- S-O = an unspecified number of choice options;
- O = the decision outcome or output which terminates the decision sequence.

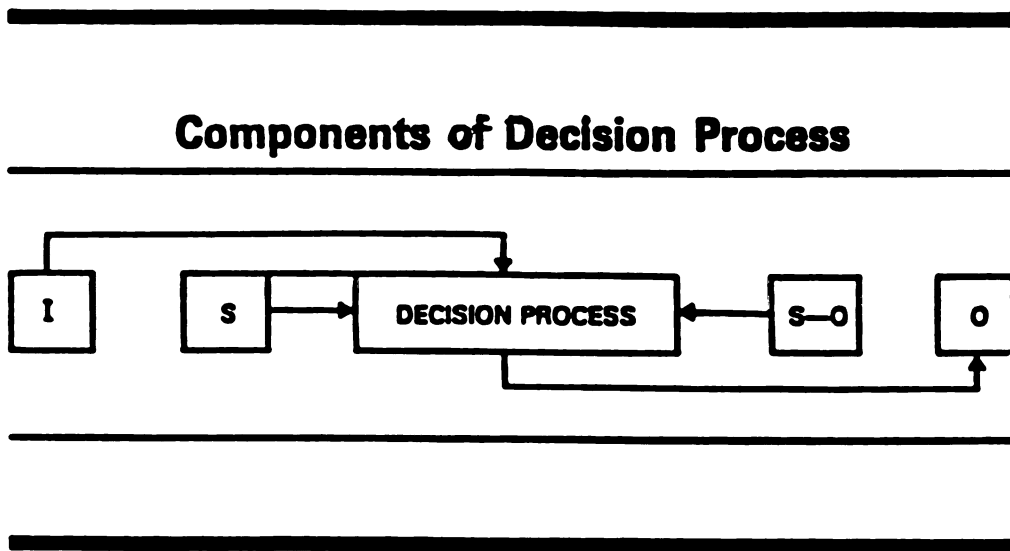


Figure 2.4. Moore's Model of the Decision Process in Organizations

FERENCE (1970) constructed a more complex model of the decision process in business organizations. Depicted in Figure 2.5, this model focuses on five major stages of the decision process: 1) problem recognition, 2) identification procedures, 3) information acquisition and integration, 4) definition of a constraint set, and 5) comparison and adaptation. Where Moore's model did not indicate a number of decision-makers, Ference's model focuses on the information-gathering and processing activities of numerous individuals within a firm, suggesting that the firm's organization is complex with input from numerous decision-makers.

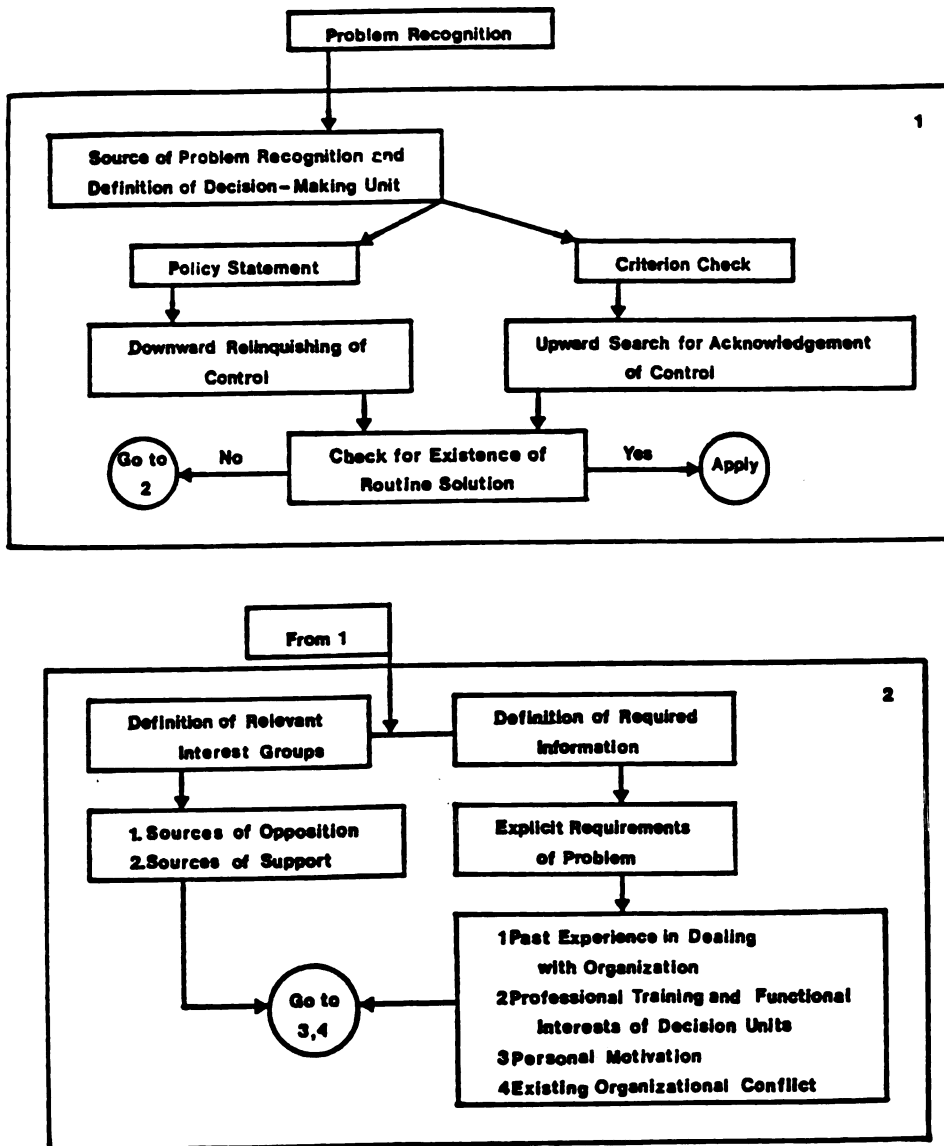


Figure 2.5. Ference's Model of the Decision Process in Organizations

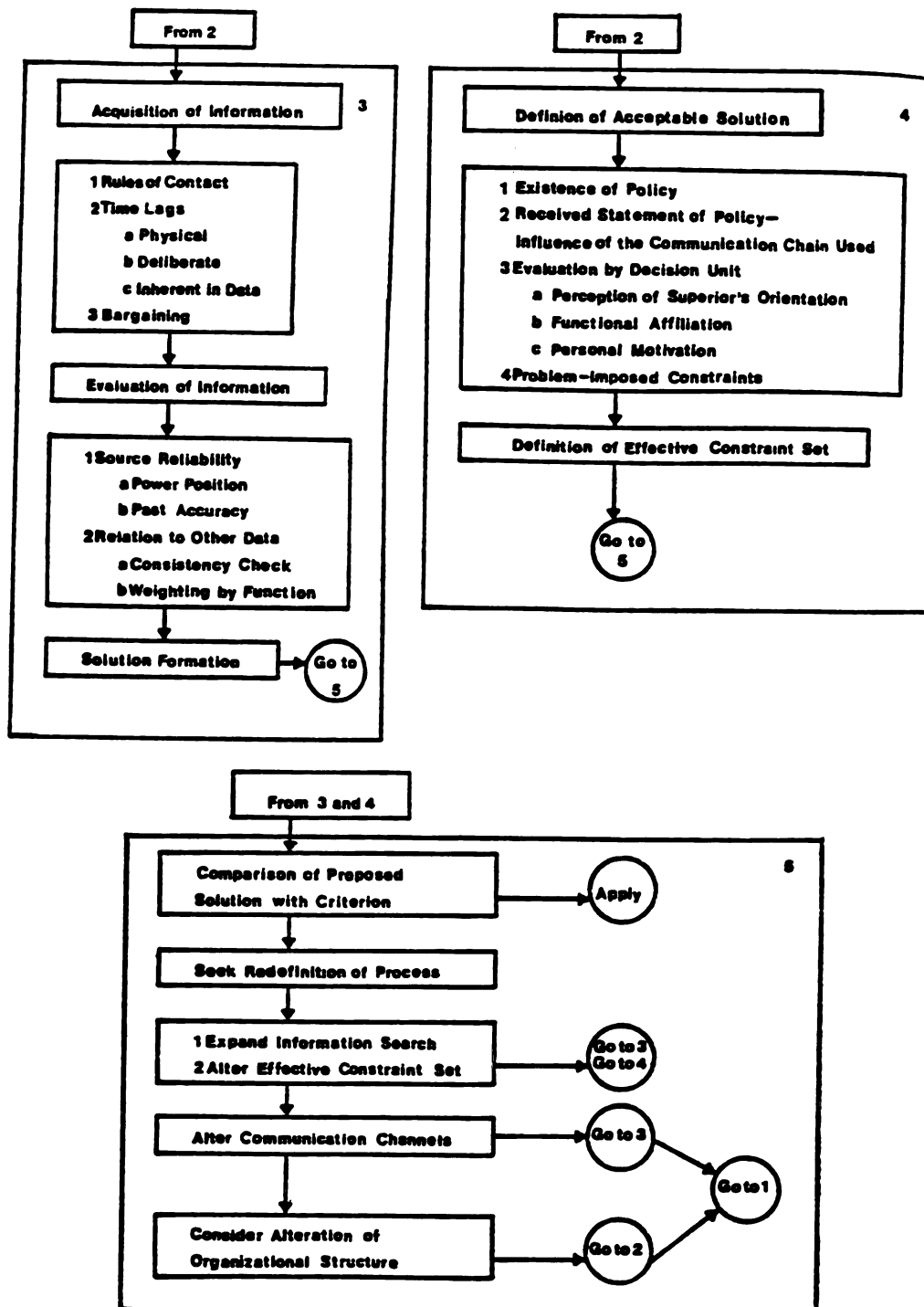


Figure 2.5 (cont'd).

Pitts and Snow (1986) also described a popular model for decision-making in business organizations. Depicted in Figure 2.6, this model focuses on strategic choices, and suggests that managers proceed sequentially through a series of strategic decisions, beginning with a thorough analysis of the business environment and ending with implementation of management choices.

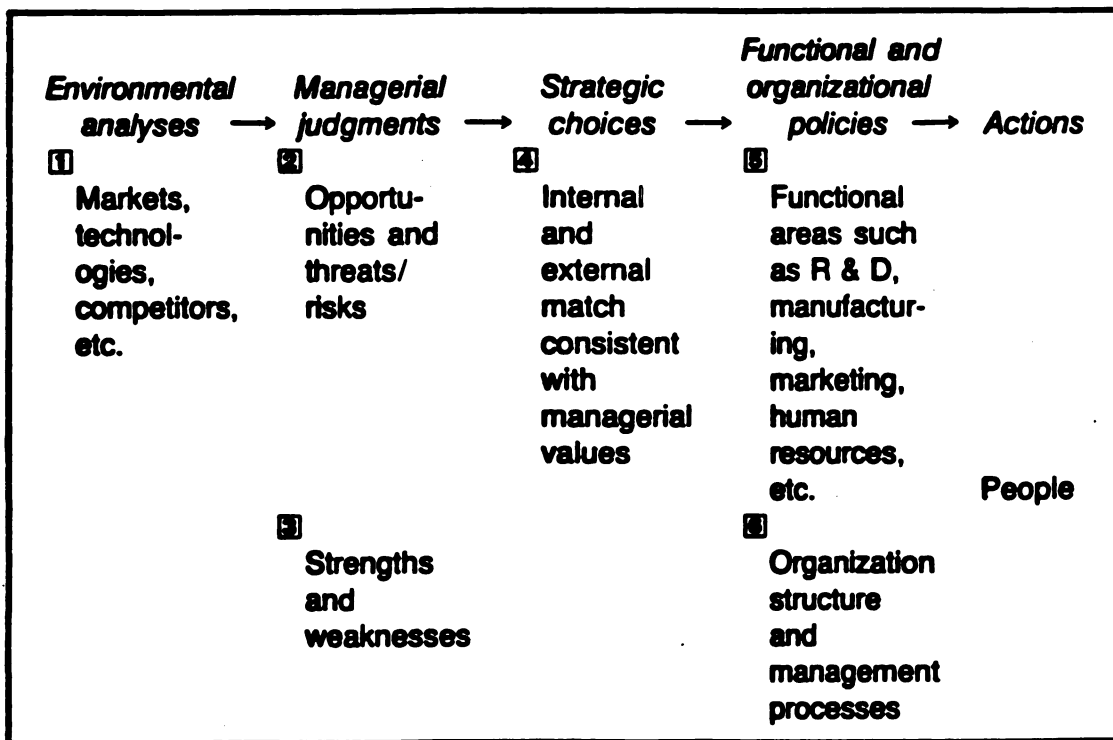


Figure 2.6. Pitts and Snow's Elements of the Decision-Making Process

Although the process models of decision-making shown here vary in focus and complexity, taken together, they suggest that there are "typical" activities and sequences of behaviors present in most organizations. Namely, they all indicate that there is some trigger which initiates the decision situation, some type of evaluation of choice alternatives, and a commitment to some choice which terminates the decision process. While these models depict patterns of behaviors which may be necessary to arrive at choices, none describes the impact of organizational structure and decision orientation on the decision process.

Organization Structure and the Decision Process

By the early 1980s, organization structure had been recognized as having a profound impact on the decision-making process in organizations (Bourgeois & Astley, 1979; Brugelman, 1983; Fahey, 1981). Despite this observation, it was not made clear how the decision process is affected by organizational structure. Attempting to address this issue, Frederickson (1986) conducted some significant pioneering work on the topic. He identified three components of organization structure:

- 1) Centralization - the degree to which the right to make decisions and evaluate activities is concentrated;
- 2) Formalization - the degree to which an organization uses rules and procedures to direct behavior;
- 3) Complexity - the degree to which the firm's operations are characterized by many interrelated (functional) parts.

In a firm with a highly centralized structure, decision responsibility rests with an individual or small coalition of managers. The decision process and orientation, therefore, will be dependent on the characteristics and preferences of one or a very small number of decision-makers. Frederickson (1986) argued that a major implication of such a structure is that decision stimuli (problems and opportunities) go unrecognized or ignored until they appear before a coalition member. Therefore, although decisions tend to be tightly coordinated, the potential for a delayed start of the decision process may result in a failure to respond to some stimuli. However, the decision process is often initiated by proactive, opportunity-seeking behavior, rather than reactive behavior oriented to only problem-solving. Moreover, decisions may be made in a rapid and sweeping manner.

The degree of formalization in firms has a tremendous impact on decision-making since organizational rules and procedures influence decision behaviors and specify how, where and by whom activities will be carried out. Mintzberg (1979) noted that firms which are highly formalized at the upper management level tend to be formalized at all levels. Thus, Frederickson (1986) implied that, although decision processes are formal and decision orientations may be highly "rational", the decision process tends to be activated by problems or crises rather than opportunities. Thus,

organizations characterized by high degrees of formality will make decisions which are oriented to remedial goals. Also, because of a tendency to follow procedures, the implementation of decisions is rather slow.

In firms characterized by a high degree of complexity, decisions are influenced by organizational boundaries (divisions, departments, levels of management, etc.) and personal interactions within the organization. Frederickson (1986) suggested that in complex organizations, the decision process may be initiated at any point in the organization, however, the cognitive and motivational levels of individuals within the organization will affect how stimuli are perceived and acted upon. Important stimuli may be ignored due to limited perceptions or acted (or not acted) upon due to concerns of individual self-interest. Decisions, when made, will be subjected to high degrees of political bargaining and will be implemented in an incremental, rather than sweeping, fashion.

The interrelationship between size and structure has a significant influence on decision-making in business organizations. Stephenson (1983) and Churchill and Lewis (1983) indicated that large firms tend to be characterized by an organizational structure that is decentralized, highly formalized and/or very complex. Therefore, the typical decision process for large firms involves many rules, procedures, and/or individuals and political bargaining.

According to Frederickson (1986), an organization structure characterized by a high degree of formalization functions as a "machine bureaucracy." This type of organization relies on the standardization of work, a proliferation of rules, regulations, and a formalized communication system (Mintzberg, 1979, p. 315). Frederickson (1986) argued that the decision process in formalized organizations is triggered when some formally monitored factor indicates a need for action. The action response will be selected from a set of standardized alternatives developed within the organization. Importantly, a formalized system will rely on aggregated, quantitative data that will be evaluated at several levels within the organization. In addition, Frederickson (1986) labeled firms characterized by a high degree of managerial complexity as "professional bureaucracies." These firms rely on trained professionals with in-depth knowledge in specific functional areas (Mintzberg, 1979). Decision behaviors therefore are not wholly directed by organizational formalization, but are also directed by individuals' specializations. Since individual interests and perceptions tend to be parochial, decision actions tend to be taken only after extensive political bargaining has taken place (Frederickson, 1986). Mintzberg (1979, p. 363) noted "the notion of strategy - a single, integrated pattern of decision common to the entire organization - loses a good deal of meaning in a

professional bureaucracy." Mintzberg (1979) indicated that large firms tend to have more of the characteristics represented by machine and professional bureaucracies.

Organizational Structure in Small Firms

Small firms are often characterized by, among other things, a lack of formal and/or functionally complex structure (Stephenson, 1983; Churchill & Lewis, 1983; Dodge & Robbins, 1992). Frederickson (1986) referred to centralized organizations lacking formality and complexity as "simple structures". Firms of this type have little or no technical or administrative support, little unit differentiation, and an informal division of labor (Mintzberg, 1979, p. 306.) The activities of the firm are controlled by a dominant CEO, or small coalition of decision-makers, motivated to achieve a positive, yet general, goal. Successful or unsuccessful implementation of decisions is linked to the CEO's knowledge and capabilities. The lack of pervasive rules, procedures, and political bargaining makes it possible for the CEO to implement changes quickly.

Decision Orientations and the Decision Process

Three broad classes of decision orientations among managers were identified in the literature, each characterized by the degree of analytical rigor and amount of objectivity involved. One approach, broadly termed

Classical Rational Decision Theory, is characterized by a high degree of analysis and objectivity. Borrowed from traditional economists' "rational man" theory, this view specifies that managers seek solutions to problems by establishing objectives, concurrently researching all relevant alternatives, and evaluating information in such a manner that probabilities of outcomes may be calculated (Simon, 1955). The Classical Rational model assumes that decision-makers are omniscient as well as rational, and seek optimal solutions to problems. (Critics of this theory argue that it is too rigorous and complex to be realistically applied in most managerial decision-making situations, regardless of firm size and structure.)

A second class of theory, called Bounded Rationality Theory, proposes that decisions are limited by decision-makers' knowledge, perceptions and capabilities (Simon, 1955). Various constraints in the decision-makers' environment render decision behaviors less objective than those described by the Classical Rational theory. When Bounded Rationality theory is applied, decision-makers seek alternative solutions sequentially, rather than concurrently, and information is sought as needed. Generally, the search for and evaluation of alternatives is characterized by less rigor and analysis than the Classical Rational model implies. Thus, instead of pursuing an optimal solution, the decision-maker will adopt a satisfactory

alternative (Cyert, et al., 1956). This phenomenon has been called "satisficing" behavior (Simon, 1979).

A third decision theory has been labeled the Social or Open System model. In practice, this model is characterized by the least degree of analytical rigor and objectivity. The model does not require that decision goals be clearly defined, that alternatives be stated in operational terms, or that evaluation techniques be objective in nature (McKenney & Keen, 1974). Rather, decision-makers may use subjective and heuristic decision techniques, including "hunches" and intuition, in arriving at decisions. As with Bounded Rationality Theory, decision-makers using an open system seek to arrive at solutions perceived as satisfactory, rather than optimal. However, decision activities under the Social Model are far less formal than those described by Bounded Rationality Theory.

Rational v. Intuitive Orientations Toward Decision Making

A review of organizational decision models highlights a debate over the relative value of rational and intuitive orientations toward decision-making. Simon (1979), discussing normative decision theory applied to business decision makers, noted that optimization techniques were transported from economics to business decision theory. Many scholars note that logical, rational, objective, and optimization-based decision orientations, often centered on quantifiable objectives, and exemplified by Classical

Rational Decision theory, form the backbone of business education in the Western world. Indeed, a large body of scholarly work, under the general heading of "Management Science" and related topics, stresses rational, objective, optimization-based decision techniques. For example, a group of management specialists from Harvard and the University of Michigan (see Brown et al., 1974), articulated the virtue of highly rational decision techniques:

"Good decisions require logical handling of input variables. Decision analysis is a technology which assists individuals and organizations to make up their minds by quantifying their considerations, even subjective ones. Decision analysis uses the same input variables used in informal decision-making, but imposes logical structure and discipline on the reasoning."

Support for rational models of decision-making has been widespread, and criticism has been directed at intuitive and subjective methods. However, another school of thought has emerged, which calls rational models unrealistic and questions the usefulness of rational models in "real world" settings (Cyert & March, 1963; Simon 1955; 1979). The challengers also pointed out benefits associated with intuitive and subjective methods of decision-making. A dominant characteristic of intuitive decision-making is that the thinking process associated with it is not easily observed or articulated. Several scholars argue that intuitive and subjective methods of decision-making are not necessarily illogical or non-rational. Braverman (1980, p. 18), for example, stated, "the intuitive decision-maker,

consciously or unconsciously, follows a logical process of thought and evaluation in arriving at a decision."

According to Braverman, the intuitive decision-maker's tools are judgments and common sense, accompanied by basic procedures which involve organizing, ranking, counting, estimating and simple arithmetic. Braverman also provides a model of the intuitive decision-making process. The stages in the model are:

1. Identifying and listing the complete set of viable alternative acts that are available to the decision maker under a particular decision situation.
2. Identifying and listing the set of states of nature that has an appreciable effect on consequences of the acts.
3. Determining and valuing the conditional consequences of each act for every state of nature.
4. Eliminating states of nature that have insignificant effects and acts that are clearly inferior to other available acts.
5. Selecting the appropriate decision criterion in light of the organization's objectives and the decision-maker's subjective assessment of the uncertainties pertaining to the situation.
6. Quantifying the uncertainties in terms of the likelihood or probability that a particular state of nature will occur.
7. Using the quantitative measure of uncertainty, the conditional consequences, and the decision criteria to choose the optimal act.

Similar to Braverman's views, Mintzberg et al. (1976) indicated that decision orientations perceived to be "unstructured" are indeed characterized by elements of structure. Based on a study of 25 "unstructured" decisions,

he developed a model which suggests that a series of phases guide subjective decisions. They are:

1. A **recognition** phase in which opportunities, problems and crises become apparent to the decision-maker(s). This phase is often accompanied by ambiguous verbal data.
2. A **diagnosis** phase which involves the tapping of information channels to clarify and define the issues.
3. A **search** and **screen** phase in which viable alternatives are generated and inappropriate options are eliminated.
4. A **design** phase where alternatives are shaped and/or modified.
5. A **selection** phase where a choice is evaluated on the basis of decision criteria (including judgments and bargaining, where appropriate). The choice is then adopted.

Notably, the Mintzberg et al. (1976) model showed the decision process to be characterized, not by smooth progression, but by interruptions, dead ends, feedback loops and other factors.

Several scholars wrote that subjective methods of decision making are very valuable and useful. Agor (1986, p. 6) stated that intuitive decision-making methods are fast, accurate and highly efficient. Therefore, intuition may be used to make successful decisions and to curtail delays in the decision process. McKenney and Keen (1974), examining results of studies on decision-making orientations, developed a model which indicated that intuitive thinkers were able to keep the major problem in mind at all times; were adept at processing non-verbal cues;

were able to consider numerous alternatives simultaneously; could easily jump back and forth between information search and analysis; and could explore and abandon options very quickly. Agor (1986, p. 7), citing research by the psychologist Carl Jung, noted that decision-makers skilled in intuitive methods: 1) see new possibilities in any given situation; 2) have a sense of vision of what is coming in the future and how to move their organizations in response to it; 3) are adept at generating new ideas and in providing ingenious new solutions to old problems; and 4) deal effectively with rapid change, crisis, and highly complex decision-making situations.

The controversy over appropriate decision orientations in firms has led to a reconsideration of "comprehensiveness," a measure of the degree of structured formalized rational decision orientations in firms. As indicated, demonstrating high levels of comprehensiveness has often been assumed to be the "best" way to approach management decisions. However, critics argue that costs are associated with high levels of comprehensiveness. Braybrooke and Lindblom (1970) argued that commitment to comprehensiveness raises organizations' information gathering costs and creates delays in timely responses to stimuli. Therefore, commitment to high degrees of comprehensiveness may result in poor timing or missed opportunities for the firm. At the level of the individual

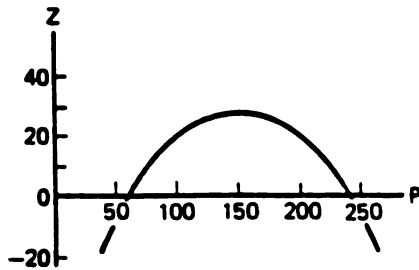
manager, McKenney and Keen (1974) suggested that the decision orientation is more "systematic" or objective in some individuals and more intuitive in others, and that attempts to alter individual natural decision-making proclivities are generally ineffective. Frederickson's (1984) investigation of performance variables in firms showed that a high degree of comprehensiveness in decision-making did not necessarily produce superior decisions. Rather, the research suggests that the most "appropriate" type of decision process and orientation depends on the total market environment facing the firm.

Decision Orientations in Marketing

A rational orientation toward decision-making has been stressed in the marketing literature. Arndt (1985, p 11), for example, noted "marketing has been dominated by the logical empiricist paradigm stressing rationality, objectivity, and measurement." The academic literature indicates that marketing decisions related to promotional issues have traditionally been characterized by the influence of long-range strategic planning and emphasis on extensive information gathering (see Kotler, 1984, p. 195; Twedt, 1978, p. 41). Marketing practitioners (Ries & Trout, 1989, p. xi) also argued, "Traditional marketing is top-down oriented. You decide what you want to do (the strategy) and then you figure out how to do it (the tactics)."

The impact of rationality on marketing thought has also been seen in the development of a number of widely known marketing decision models. These include four "optimization" models described by Kotler (1984, p. 216-217). The models are depicted in Figure 2.7. One model, differential calculus, applies specific mathematical functions to calculate the maximum or minimum value of a decision. The second, mathematical programming, expresses decision objectives as quantifiable variables to be optimized given a set of explicit constraints. The third, statistical (Bayesian) decision theory, consists of a set of activities which involve (1) identifying decision alternatives, (2) determining the events that will bring about an outcome, (3) estimating the probability of each event, (4) estimating the payoff of each outcome, (5) determining the expected value of each decision, and (6) choosing the decision with the highest expected payoff to the firm. Finally, game theory, in a manner similar to Bayesian theory, calls for identification of decision options, uncertainty factors, and the value of different outcomes. However, game theory assumes that a major uncertainty factor will be malevolent. Thus, emphasis is on the "least worst" decision.

Given $Z = -56,000 + 1,200P - 4P^2$.
Find the price (P) (where $P \geq 0$) that
maximises profits, Z .



(a) Differential calculus

Given the objective function $Z = 10A + 20D$
and the constraints

- (1) $A + D \leq 100$
- (2) $A \geq 40$
- (3) $A \leq 80$
- (4) $D \geq 10$
- (5) $D \leq 70$

find the allocation of the \$100 budget
between advertising (A) and distribution
(D) that will maximize profits (Z).

(b) Mathematical programming

Given the payoff matrix

	0.7 Recession	0.3 Prosperity
Don't raise price	\$50	\$70
Raise price	-\$10	\$100

find the decision that maximizes the
expected value of the payoffs to the
firm.

(c) Statistical decision theory

Given the game matrix

		Competitor	
		Don't restyle	Restyle
Company	Don't restyle	\$0	-\$10
	Restyle	\$20	\$5

find the decision associated with the
least worst outcome.

(d) Game theory

Figure 2.7. Kotler's Optimization Models for Decision-Making

Other marketing literature (Braverman, 1980; Montgomery & Urban, 1969) referred to optimization techniques focused on mathematical decision models such as "minimax" and "maximax" techniques, which demonstrate methods to minimize losses and maximize economic benefits, respectively. Theoretically, models which seek optimal solutions and maximized profits may be used in firms regardless of size or structure. However, marketing scholars and consultants reported assisting large firm executives in applying optimization techniques to managerial decisions (see, for example, Brown et al., 1974; Pitts & Snow, 1986).

Overall, rational orientations to decision-making have made important contributions to the study and practice of marketing. Charnes et al. (1985) noted that the application of statistical methods such as regression, factor analysis, cluster analysis, and analysis of variance, used in conjunction with various types of consumer information available (measures of audience levels and characteristics; scanner data, etc.) has revolutionized market analysis and decision making. Moreover, management science applications continue to provide methods for handling large and complex marketing problems.

Despite the contributions of rational/optimization-oriented models of decision-making to marketing, they are often criticized. For example, Cyert and March (1963)

claimed that the concept of a rational, profit-maximizing decision-maker with access to perfect information, bore little resemblance to the modern corporation. Anderson (1982) concurred with the arguments of Cyert and March and added that large firm marketing decisions are oriented toward satisfying the various political constituencies of the firm: customers, stockholders, lenders, suppliers and employees. This observation suggests that firms operating as political bureaucracies inherently fail to approach decisions from an optimal perspective. Other research has described decision-making in corporations as "messy, disorderly and disjointed," (Pennings, 1985) and "muddled," (Lindblom, 1979).

Given the weaknesses associated with traditional rational approaches to decision-making in marketing, an appreciation of more subjective and heuristic models of decision making has been noted. Agor (1986, p. 4), for example, argued that the marketing function is inherently oriented toward "intuitive" brain skills. Research by Chakravarti et al., (1981) suggested that managerial judgments had great value in marketing decision-making. Kotler (1984, p. 219-220), provided a good overview of graphic models which may be used in depicting heuristic marketing decision processes (see Figure 2.8). These models are suited to varying degrees of applied rationality and represent guides which may facilitate the decision process.

A logical flow diagram, for example, shows a sequential process of activities and decisions; a **network planning/critical path diagram** portrays events that must occur in order to complete a project; a **causal analysis diagram** shows the impact of specific factors on each other; a **decision-tree diagram** depicts alternatives and consequences in each decision situation; a **functional-relationship diagram** shows the linear or non-linear relationship between two or more variables; a **feedback-system diagram** shows the positive or negative impacts of inputs and outputs into a system.

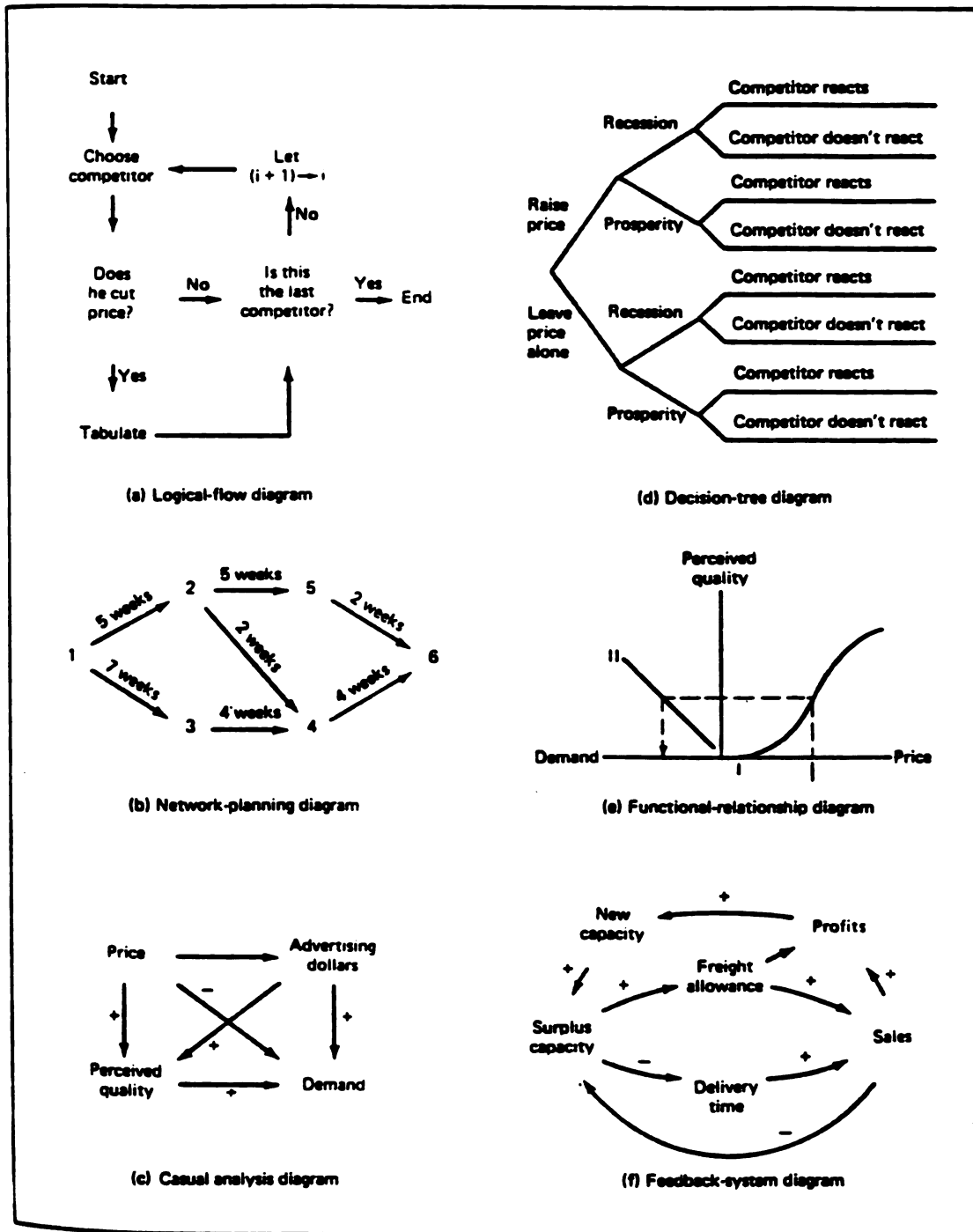


Figure 2.8. Kotler's Heuristic Models for Decision-Making

Finally, marketing practitioners Ries and Trout (1989 p. 4) argued that marketing decisions should be made, not in the traditional "top down" style, but in a "bottom up" fashion. More specifically they state, "Tactics should dictate strategies. That is, the communications tactics should dictate the marketing strategy." They advocated that decision-makers must talk to customers in order to determine these tactics because the problems that may be resolved exist in the minds of customers and prospects.

In sum, scholars have noted the value of both logical and intuitive decision-making styles in marketing. A major conclusion drawn from this discussion is that widespread acceptance of traditional models of decision-making, rooted in the logical empiricist paradigm, may be subsiding. Thus, modeling related to marketing decision-making, and education based on such models will not focus only on traditional logical methodologies, but also on heuristic styles and external factors which impact on the decision-making process.

Decision Input Variables:
Advertising and Promotion Decisions

Within the context of this research, the specific decision input variables are those factors relevant to promotional decisions. These factors appear to fall into two broad categories. The categories are: 1) factors relevant to advertising and promotion decisions in general and 2) factors relevant to advertising and promotion decisions in small firms. A review of popular advertising decision concepts and models aids in identifying variables which influence the decision process in organizations, while small business marketing literature provides some insight into relevant decision factors in small firms.

Concepts Relevant to General Advertising
and Promotion Decisions

The academic literature makes a distinction between the concepts of "advertising" and "sales promotion". Advertising has been defined as "a paid message that appears in the mass media for the purpose of informing or persuading people about particular products, services, beliefs, or actions" (Nylen, 1986, p. 671). Patti and Frazer (1988) indicate that advertising is distinguished from other forms of promotion in that it is paid for by an identified sponsor, is nonpersonal and is carried by the mass media. Sales promotion, on the other hand, has been identified as encouraging immediate or short-term response and may or may not be carried in the mass media (Schultz & Robinson, 1982).

Blattberg and Neslin (1990, p. 3) defined sales promotion as "an action-focused marketing event whose purpose is to have a direct impact on the behavior of the firm's customers." Sales promotion messages may appear inside or outside of the traditional mass media and tend to encourage short-term response. Common types of retail and consumer sales promotions include discounts, coupons, displays, samples, refunds, premiums, contests, and special events.

Texts written for the study of advertising and promotion (Schultz and Robinson, 1982; Nylen, 1986; Aaker & Myers, 1987; Patti & Frazer, 1988; Blattberg, 1990; Scholtz, 1990; Shimp, 1990) indicate that advertising and promotion decisions generally fall into seven major categories: 1) setting objectives, 2) choosing target audiences, 3) preparing budgets, 4) making choices about positioning, 5) determining creative strategy and production methods, 6) selecting communication channels, and 7) evaluating results. Typically, these texts emphasize the development of a case or situation analysis in order to begin to resolve promotional issues. Also emphasized is the preparation of well-developed plans, bolstered by extensive information gathering (via surveys, focus groups, copy testing, test markets, reference to syndicated media research and sales information, etc.).

General Promotional Decision Models

Several models have been developed to illustrate the advertising and promotion planning and decision-making process in organizations. Most rely primarily on the use of logical-flow diagrams to illustrate normative decision processes. They also indicate the seven major advertising/promotion decision areas described previously. Patti and Frazer (1988, p. 105, 163), for example, developed two models which depict the environment for advertising decision-making. The first model (Figure 2.9) emphasizes the impact of external and internal influences, followed by strategic company and marketing goals on advertising decision-making. The second model (Figure 2.10) depicts the role of advertising in the firm, and treats advertising, sales promotion, public relations and personal selling as distinct functional entities of the promotion mix. Schultz (1990, p. 117), illustrated a model consistent with Patti and Frazer's models, showing that promotion activities flow from broader corporate-level strategic planning efforts and handling advertising, sales promotion and other promotion activities as separate entities.

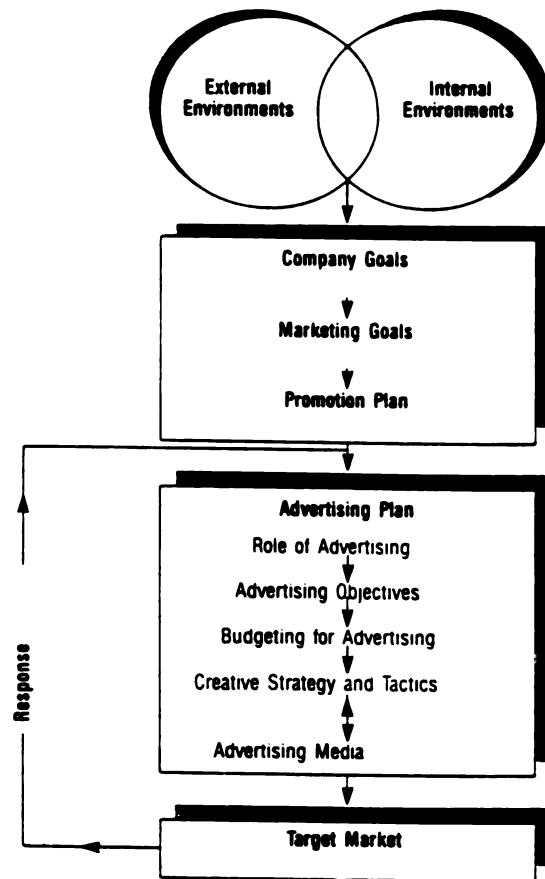


Figure 2.9. Patti and Frazer's Model of Influences on Advertising Planning

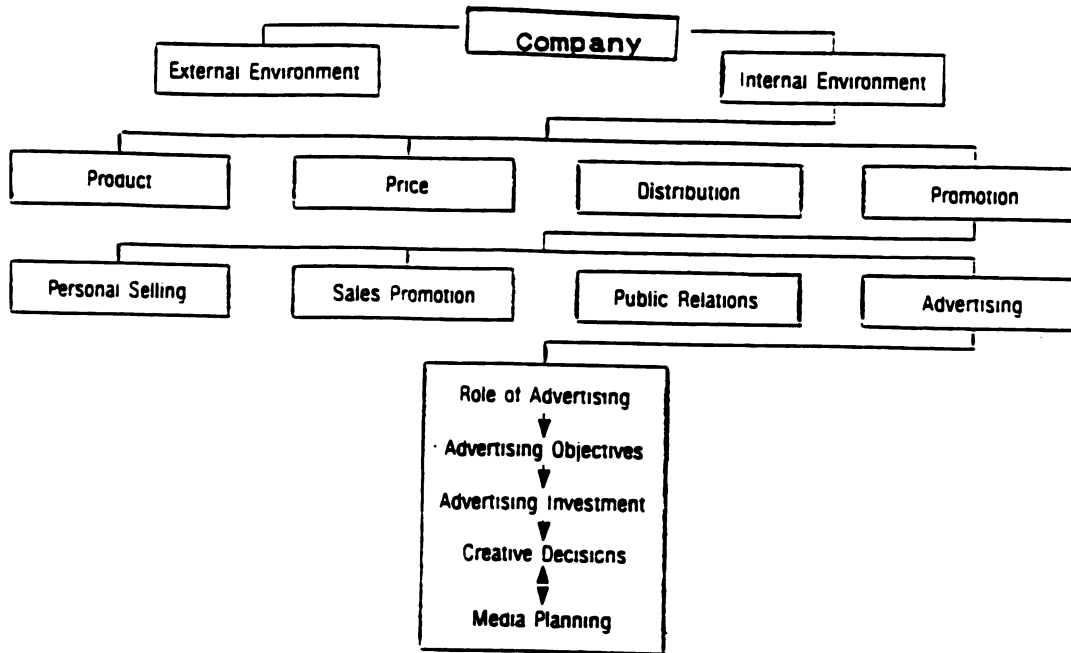


Figure 2.10. Patti and Frazer's Illustration of Advertising's Role within a Company

Schultz also suggested that a model developed by Ray (1973) was excellent for engaging in advertising planning (see Figure 2.11). However, Schultz (1990) noted that "inexperienced" planners would probably experience difficulty in applying Ray's model since it appears to be best suited to organizations characterized by complex functional relationships and myriad marketing tasks. Similarly, Blattberg and Neslin (1990, p. 381) presented a promotion planning model comparable to Ray's model in terms of its emphasis on complex functional relationships and tasks.

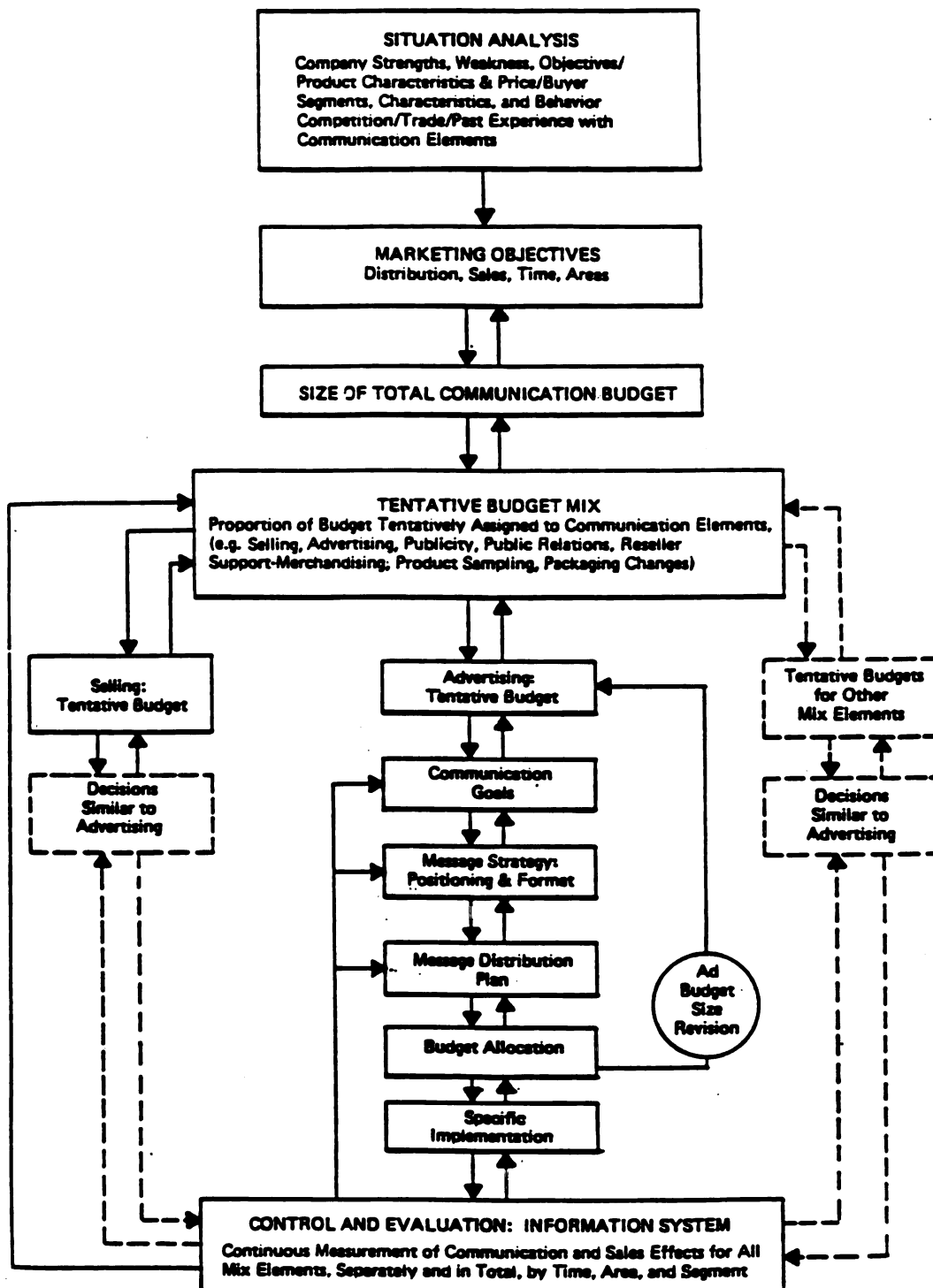


Figure 2.11. Ray's Model of the Marketing Communication Decision Process

In addition to using logical flow diagrams to illustrate the decision-making process and making reference to the seven major areas of promotion decision-making, the preceding models are similar in other respects. Notably, they tend to emphasize a strategic planning perspective as well as the development of situation or environmental analyses prior to promotion planning. As Ries and Trout (1989) indicated, the models show a "top down" planning process, where objective setting, strategy determination and development of tactics represent the normative decision process.

Several differences between the models are also observed. For example, the models developed by Patti and Frazer (1988) and Schultz (1990) not only describe the specific components of an advertising plan, but also show how the advertising function fits into the structure of the organization. These models depict the advertising function as operating within an organization characterized by a decentralized management structure. The models developed by Ray (1973) and Blattberg and Neslin (1990) show the promotion decision process to be much more task-oriented and complex than the prior models, with emphasis on interrelated functional relationships within the organization. Thus, the latter models may be suited to organizations characterized by a high degree of structural complexity.

These popular models of the promotion decision process

have been presented in the manuscript because they illustrate how the promotion decision process might work in organizations. They will be revisited in order to later discuss whether such models are appropriate to the study of promotion decision-making in small firms. Arguably, such models may not be suited to the study of small firms, where decisions tend to be made in centralized and simple management environments.

Theoretical Perspectives on Promotional Decisions in Small Firms

Taking into account some general characteristics of small businesses, two theoretical models of marketing activities in small firms have been developed. Both models take an evolutionary approach, and suggest that marketing functions do and should change at various stages in the life cycle of the firm. These models also suggest a parallel to the stages of business growth illustrated in the Churchill and Lewis (1983) model cited early in this paper.

One model, a matrix developed by Tyebjee et al. (1983), suggests that successful small firms pass through four stages of marketing development. The authors assumed that marketing organization and activities that are satisfactory in one stage of the business life cycle may become inappropriate in the next phase of development. Figure 2.12 illustrates this model.

	STAGE 1:	STAGE 2:	STAGE 3:	STAGE 4:
	Entrepreneurial Marketing	Opportunistic Marketing	Responsive Marketing	Diversified Marketing
Marketing Strategy	Market niche	Market penetration	Product- market development	New business development
Marketing Organization	Informal, flexible	Sales management	Product- market management	Corporate & divisional levels
Marketing Goals	Marketplace credibility	Sales volume	Customer satisfaction	Product life cycle and portfolio management
Critical Success Factors	Help from friends	Production economies	Functional coordination	Innovation

Figure 2.12. Tyebjee et al.'s Evolution of the Marketing Function in Small Firms

A fuller description of marketing activities according to the Tybjee et al. (1983) model is presented below.

Stage 1: Entrepreneurial Marketing

The company attempts to eke out an existence in the market by seeking customers whose needs are not being met by the competition. The entrepreneur often relies on business contacts, friends, family and acquaintances for business support. The sales/production volume of the firm is low, and the firm cannot afford a formal marketing staff. The marketing effort, characterized by the personal touch, eventually overextends the owner/manager's capabilities. Companies that fail at this stage may not have been able to generate a sufficient customer base.

Stage 2: Opportunistic Marketing

Firm and /or product credibility have been established. Economies of scale are emphasized as financial controls and a more standardized product line or service are developed. An "infant" marketing department may emerge, often staffed by sales personnel, responsible for basic selling and promotion activities. Increasing sales is a major priority for the firm. Many companies fail to adequately plan for the next phase of marketing strategy.

Stage 3: Responsive Marketing

The company's growth is expanding so rapidly that organization and division of responsibilities become problematic. Product manager positions emerge, with emphasis on budgeting for promotions, customer service and market research. Market and customer information may be gathered from field and sales personnel as well as more formalized market research. A critical difference in marketing orientation is that, prior to Stage 3, marketing activity has been guided by the needs of the firm; Stage 3 marketing objectives are influenced by emphasizing customer needs. Due to market saturation or competitive activity, Stage 3 firms must seek product/market opportunities in order to sustain growth.

Stage 4: Diversified Marketing

In order to handle increased complexity, the firm develops divisions. Divisions have their own product managers for individual product lines and have support staff to handle sales, advertising, promotions and customer research. A corporate-type marketing function may emerge, and marketing plays a key role in developing new, diverse opportunities.

A second model (Carson, 1985) also describes four stages in the marketing evolution among small firms: 1) Initial Marketing Activity 2) Reactive Selling 3) the "DIY" ("Do-It-Yourself") Marketing Approach and 4) Integrated Proactive Marketing. As with the Tyebjee et al. (1983) model, the Carson model also assumes that successful ventures pass through a business life cycle where the responsibilities of upper management and appropriate marketing activities change significantly. However, the stages in this model are not directly comparable to the Tyebjee et al. model. Figure 2.13 illustrates the Carson (1985) model.

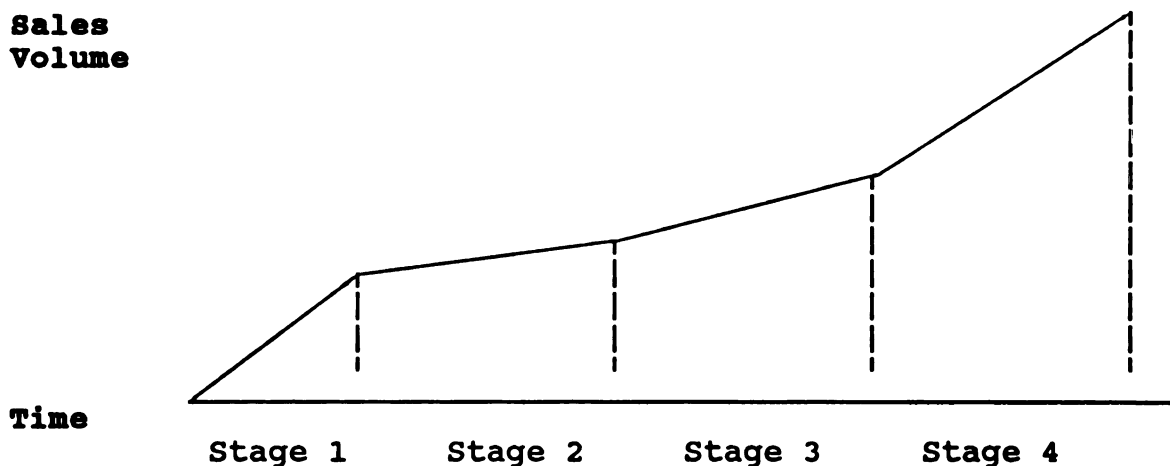


Figure 2.13. Carson's Four Stages of Marketing Evolution in Small Firms

Small business marketing activities according to the Carson (1985) model are described below.

Stage 1: Initial Marketing Activity

Marketing activity, in the academic sense, does not exist, or is carried out in a very "primitive" fashion. Promotion, pricing and distribution activities are haphazard and uncoordinated. Customers are likely to be interpersonal associates of the entrepreneur(s) and word-of-mouth is the firm's most effective sales promotion tool. Repeat orders may be sufficient for growth to occur.

Stage 2: Reactive Selling

The customer base has expanded to include more strangers. Customer inquiries are common and may fuel the business. The firm may develop a simple brochure and/or standard promotion letter to answer prospective customers' questions. Reactive marketing may be appropriate as long as inquiries and demand are sufficient, and competition is minimal.

Stage 3: The "DIY" Marketing Approach

Cost, competition or other problems put pressure on the firm to significantly increase sales. Thoughts are given to hiring a marketing manager. However, the firm's owner/manager, reluctant to hire an outsider - perhaps due to cost concerns or performance uncertainty - decides to learn something about marketing and tries his own hand at making more complex marketing decisions. Thus, marketing performance of the firm is dependent upon the entrepreneur's marketing aptitude. Marketing efforts are often tentative and disjointed due to lack of confidence and expertise. However, overindulgence in marketing activity is rare, due to expense and skepticism. Firms may remain in this stage for an extended period of time.

Stage 4: Integrated Proactive Marketing

The firm enters a "professional" marketing stage where a full or part-time marketing expert joins the firm; a consultant is hired to make recommendations to the firm; or a co-operative unit is formed where a group of firms share the cost of a marketing consultant. Many firms never progress to Stage 4 because the entrepreneur is unable to justify the cost or uncertainty associated with a hired professional, or because the owner/manager is satisfied with the "do-it-yourself" approach.

In studying the two models described, it appears that the Tyebjee et al. (1983) model assumes an increasingly more

sophisticated level of marketing than the Carson (1985) model. The Carson model seems oriented to firms that start and stay small, while firms in the Tyebjee model appear to evolve into much larger and complex entities. In fact, it can be argued that the activities described in Stages 3 and 4 of the Tyebjee model are often associated with large, rather than small firms as Churchill and Lewis (1983) and Stephenson (1983) indicated. A fairly sophisticated marketing systems does not occur until Stage 4 in the Carson model, and even then, the organization of marketing activities appears much less complex than those described in the former model.

Empirical Evidence on Variables Affecting Promotional Decisions in Small Firms

As noted previously, conclusions based on empirical evidence of marketing activities in small firms are somewhat tentative due to limitations in the existing research. However, the literature does provide an indication of factors relevant to the promotion decision process in small firms. These may be discussed within the context of the major areas of promotional decisions identified earlier.

Setting promotional objectives.

Planning activities have traditionally been regarded as fundamental to setting promotional objectives in organizations. Two levels of planning behavior were identified in the literature which are appropriate to a

discussion on marketing issues. As indicated previously, strategic planning refers to the setting of long term objectives and strategies (often related to the firm's mission and goals). This type of planning is uncommon in small firms (see Shrader et al., 1989; Robinson and Pearce, 1984). A second type of planning activity, operational planning, which refers to the development of short term (monthly, quarterly and annual) management objectives, action plans and procedures, is not uncommon in small firms. Several studies (Shrader et al., 1989; Gable & Topol, 1987; Robinson et al., 1986b) indicated that operational planning is routinely practiced by a majority of entrepreneurs. In addition, advertising and promotion planning have been identified as operational planning activities and were found to rank third on a list of eight operational planning activities regularly performed by small firms (Gable & Topol, 1987).

Research activities are also regarded as basic to setting promotional objectives in organizations. Several studies indicated that entrepreneurs utilize numerous sources of information in the decision-making process (Welsch & Young, 1982; Rice & Hamilton, 1979; Peterson, 1984; Franklin & Goodwin, 1983; Sprecht, 1987). Information sources have been classified as electronic, interpersonal (business, non-business and professional), institutional and written (See Appendix II). Information source preferences

have been found to vary with respect to the type of problem encountered, problem complexity, perceived importance of the source to the entrepreneur, and personality characteristics of the entrepreneur (Young & Welsch, 1983; Sprecht, 1987; Franklin & Goodwin, 1983; Welsch & Young, 1982) although Young and Welsch (1983) found entrepreneurs to generally prefer seeking information in interpersonal situations. However, Young and Welsch (1983) found advertising and promotion information source preferences among entrepreneurs to correlate most significantly with electronic sources of information, followed closely by written sources.

Although small firm decision-makers refer to various sources of information, their lack of or poor marketing research has been noted. Several studies (Twedt, 1978; Wong and Chapman, 1978; Barnes, et al., 1982) indicate that small firms are far less likely than large firms to conduct formal marketing research. Studies also revealed infrequent or inappropriate marketing research. For example, a study of 160 small businesses (McDaniel and Parasuraman, 1986) revealed that only 64 had conducted a formal marketing research study in the past three years. Of those 64 firms, 70 percent had conducted an "internal" study (i.e., used their own employees and other resources); 47 percent had conducted an "external" study (used outside suppliers of research information, such as market research firms, college students and/or college professors); and 17 percent had

conducted both types of research. An earlier Canadian study of 300 small firms (cited in Barnes et al., 1982) indicated that only 37 percent engaged in even a "rudimentary" form of customer research.

A number of reasons have been given as to why a significant number of small firms fail to engage in marketing research. Barnes et al. (1982), Boughton (1983) and McDaniel and Parasuraman (1986) indicated that many small business entrepreneurs feel they do not have the expertise or time to conduct or supervise a market research project; marketing research is believed to be very expensive; marketing research is perceived to be too technical, irrelevant and not able to reveal new information to the decision-maker. Overall, the McDaniel and Parasuraman (1986) study indicated that the decision whether or not to engage in marketing research was related to the entrepreneur's attitude toward marketing research, rather than the competitive business situation facing the firm. Ironically, when asked "Was the information you got worth the money you spent?" 90 percent of small firms which had used marketing research replied, "Yes." Despite small firms' tendency to avoid formal marketing research, McDaniel and Courtney's (1989) survey of 320 small firms indicated that most entrepreneurs saw the benefit of professional market research services and stated a preference for professional marketing assistance. However, given resource

limitations, the majority believed they could afford only minor assistance.

Varadarajan's (1985) survey of 31 small food service firms provided the only other empirical work related to variables involved in setting promotional objectives. This study indicated that 75% of the firms based their promotion decisions on perceptions of market conditions and competitive activity. The other 25% reported basing their promotion decisions on recommendations from advertising or promotion agents, media agents, and marketing channel members.

Target audience decisions.

Several studies (Wichmann, 1983; Peterson, 1984; Dodge & Robbins, 1992) found that small businesses encountered difficulty in identifying and selecting potential customers. Exploring this issue, Vacarro and Kassaye (1990) performed a market-media matching study of retail liquor entrepreneurs who had targeted customers on a geographic basis; they found that these decision-makers had selected media which neither effectively or efficiently reached the perceived target audience.

One study (Peterson, 1991) looked at the acceptance and usage of the target audience concept in small firms. A sample of 519 small retail, service, manufacturing and wholesale firms indicated that an average of two-thirds of small firms employed the target audience concept.

Individually, 67.1% of retailers and 48% of service firms used target marketing in selecting prospects. The three most widely used methods of target audience selection were demographic, geographic and benefits-sought segmentation, respectively. On the basis of size of the firm, this study indicated that 81.3% of firms with 0-99 employees used target audience strategy for selecting prospects. Another article (Lee, 1990) suggested that micromarketing, a process of matching very specific audience characteristics (on the basis of demographics, psychographics and zip codes) with marketing strategy was greatly applicable to small business target audience selection.

Budget decisions.

Four empirical studies indicated decision variables for establishing budgets in small firms. Varadarajan's (1985) study of 31 small firms indicated that perceived affordability was a key factor in setting promotion budgets. Otnes and Faber's (1989) study of 109 small firms suggested that type of firm (car dealer, restaurant, grocery store) affected budget size. Gaski and Malone's (1986) study suggested that market size was an important factor in determining small firm advertising budgets, and showed that small urban firms spent increasingly more on advertising as urban populations and per capita income increased. This phenomenon may be linked to the intensity of competition in urban markets, which increases as more firms enter the

market and vie for attention from consumers. Becker and Kaldenberg's (1990) study of 416 dental practices suggested that firm revenue and location directed the small firm advertising budget. They found that practices with higher incomes and suburban practices spent more on advertising than firms grossing less revenue and urban or rural practices.

No articles indicated the number of small firms participating in co-op advertising programs, where manufacturers and retailers share the cost of advertising. Co-op arrangements are sometimes recommended to expand the advertising budgets of retail firms. For example, Young and Greyser (1984, p. 22) indicate that cooperative advertising plays a significant role in the marketing mix when goods are selectively distributed, when personal service is emphasized, when consumers seek extensive information before making a purchase choice, and when goods are relatively expensive, among other reasons. These characteristics are often associated with small firm marketing situations. Thus, cooperative advertising may represent a tremendous opportunity for the small retailer. However, a trade article by Knight and Crimmins (1986) stated that small firms underutilize co-op opportunities. Discussing this phenomenon, Patti and Walker (1980) wrote that small retailers may be unaware of co-op opportunities; may believe that their small size precludes co-op participation; may

perceive that the dollar amounts available via co-op do not justify the required administrative work; and may not agree with the manufacturer's requirements for participation in the co-op program. Knight and Crimmins (1986) also suggested that small firms may become impatient waiting for co-op reimbursement from manufacturers and dislike advertising copy which emphasizes the product more than the dealer.

Positioning and image management decisions.

Hills and LaForge (1992, p. 46), addressing the issue of marketing and entrepreneurship, defined positioning as "the process of determining how a firm wants to be perceived by target segments relative to competitors." They suggested that the positioning concept should be germane to small business marketing. Unfortunately, no empirical scholarly literature addressing the issue of positioning in small firms was found. Some practitioner-oriented literature implied that the positioning concept may be too esoteric to receive serious consideration from small business entrepreneurs (see Dean, 1980; Cassell, 1983; Gray, 1984). However, a Venture survey (see "Creating an Image," 1986) indicated that 66% of entrepreneurs believed advertising and public relations were very important to the image of the firm.

Arguably, the theme of promotion messages and the production techniques used to generate the creative product,

in conjunction with the channel(s) selected to deliver the promotional messages, combine to create an image for the firm. Unfortunately, academic research in the area of small firm image management is in its infancy (Mauer, 1989) and no information on image management decisions in small firms was found. [Manzer et al. (1980) wrote a prescriptive article describing ways by which entrepreneurs might enhance small firm images with creative newspaper advertising.] Nevertheless, creative, production and communication channel selection decisions, taken together, probably carry serious implications for the image of the small firm.

Creative strategy and production decisions.

Only one article dealing with creative strategy decisions for small firm advertising was located. This article (Kelly & Hoel, 1991) addressed the effectiveness of Yellow Pages advertising by small firms, in terms of copy quantity, ad size, and the use of color. Nonetheless, a survey by Venture magazine (see "Creating an Image...", 1986) indicated that 52% of small business owners write their own advertising and promotion copy, 15% work with an advertising agency, and 12% oversee the work of an in-house advertising staff. In addition, since research on small firm characteristics indicates that responsibilities of the owner/managers tend to involve all functional areas of the firm (Churchill & Lewis, 1983; Tate et al., 1985; Mauer, 1987a; Mauer, 1987b), it follows logically that they are

very involved in creative strategy decisions and copy executions.

No scholarly work addressed the topic of promotion creation and production decisions in small business settings. However, trade publications (see McDermott, 1986 and "Spotwise Spots...", 1986) and practitioner-oriented literature (Dean, 1980; Cassell, 1983; Gray, 1984; Maher, 1988; Lewis, 1990) suggested that cost concerns and image portrayals are major factors in choosing among production options. By observation, it appears that many small firms place advertisements using poorly-written copy and/or produce advertisements using low-cost and often low-quality methods. In addition, a large proportion of small business advertising is also concentrated in relatively low-cost media and promotion channels. Plausibly, these low-cost techniques are employed by small firms as cost-minimization strategies which provide small firms with increased opportunities to promote the firm. Cost-minimizing behavior has particular relevance for small firms, since financial constraints may preclude the opportunity to participate in more expensive promotion activity. The tradeoffs between the relative quality of promotional methods and the costs associated with various techniques may represent a serious conflict for the entrepreneur. On one hand, promotional messages which are inexpensively produced and delivered may be perceived as inferior, and may project a poor image of

the firm. On the other hand, more sophisticated techniques and channels, which may impart a positive image, may be unaffordable. It is not known what entrepreneurs think about the use of low-cost promotional options and their relative impact on the image of the firm.

Media and non-media promotion channel decisions.

The greatest amount of empirical research on small firm advertising practices and decisions has concerned traditional advertising media selection. Several studies (Jackson et al., 1979; Gaski & Malone, 1986; Otnes & Faber, 1989) indicated that the majority of small firms concentrate their advertising in newspapers, although a shifting of advertising dollars to other media and promotion alternatives has also been noted (Larkin & Hecht, 1979; Jackson et al., 1979; Patti & Walker, 1980; McDermott, 1986).

Van Auken, et al., (1992) compared the use of promotion channels with the first year of operation and the most recent year of operation for 132 small Iowa firms. The findings showed that referrals, newspapers, radio and telephone directories, respectively, were used as promotion channels during a firm's first year of operation; television was used least by all types of firms. Service firms used all forms of advertising less frequently than other types of small firms. Moreover, in the most recent year of operation, the media choices were similar to the ones used

in the first year; however, the use of newspaper, flyers, radio and telephone directories tended to decrease somewhat, while the use of television rose somewhat. Service firms deviated from this pattern by using more radio, flyers, and referrals in their most recent year than in their first year. In terms of effectiveness, referrals were ranked the most effective channel among all other choices given (television, radio, telephone directory, flyers, community events, magazines and newspapers).

Scholarly research on non-media promotions used by small firms is less abundant. A study of 107 small gift shops by Jackson et al. (1979) showed that 56% engaged in some type of promotion activity in conjunction with or instead of traditional media advertising. These activities included word-of-mouth promotion, free publicity, brochures, flyers, premiums, window signs, postcards and personal selling. Varadarajan's (1985) study of small food establishments indicated that a number were involved in coupon promotions. Other marketing literature discussed the suitability of various types of non-media sales promotions for small firms including coupons, premiums, contests, newsletters, store signage, in-store displays, and small business association membership (see McIntyre, 1989; "ABC's of Promotion...", 1991; Allchild, 1986; Goldstein, 1986; "How the Discriminating Use of Signs...", 1988; Vacarro & Kassaye, 1990; Stock, 1988). McIntyre (1989) argued that

small firms may prefer and benefit from sales promotions and publicity, rather than traditional advertising. A theoretical model by Reingen and Kernan (1986) suggested that word-of-mouth referral networks may be an effective promotion tool, especially for service marketers.

Other empirical work suggested variables which influence promotion channel selection decisions in small firms. These factors included type of business/industry, size of the promotion budget (Otnes & Faber, 1989); affordability (Cassell, 1983; Dean, 1980; Gray, 1984; Seglund, 1985); and nature of the target audience (Vacarro & Kassaye, 1989).

Promotion evaluation decisions.

Only one study addressed variables used to assess promotion effectiveness in small firms. Varadarajan's (1985) survey of 31 small food outlets' coupon promotions indicated that 95% of the firms reported basing effectiveness on coupon redemption rates, 81% noted changes in store traffic, 76% looked at effect on dollar volume, 52% looked at effect on unit sales volume, 43% measured changes in profits, and 10% examined change in market share. Despite the objectivity of evaluation methods reported, at least 50% of the entrepreneurs indicated a failure to keep written records of the effectiveness of past promotions, eliminating the opportunity for comparison of promotions. No other data indicating how promotion activity was evaluated in

small firms was found.

**A Conceptual Model of the Advertising/Promotion
Decision Process in Small Firms**

The literature on small business characteristics and organization structure, decision orientations, and variables relevant to promotional decisions, despite its limitations, provides some basis for the development of a conceptual model which describes the advertising and promotion decision process in small firms. This model is depicted in Figure 2.14.

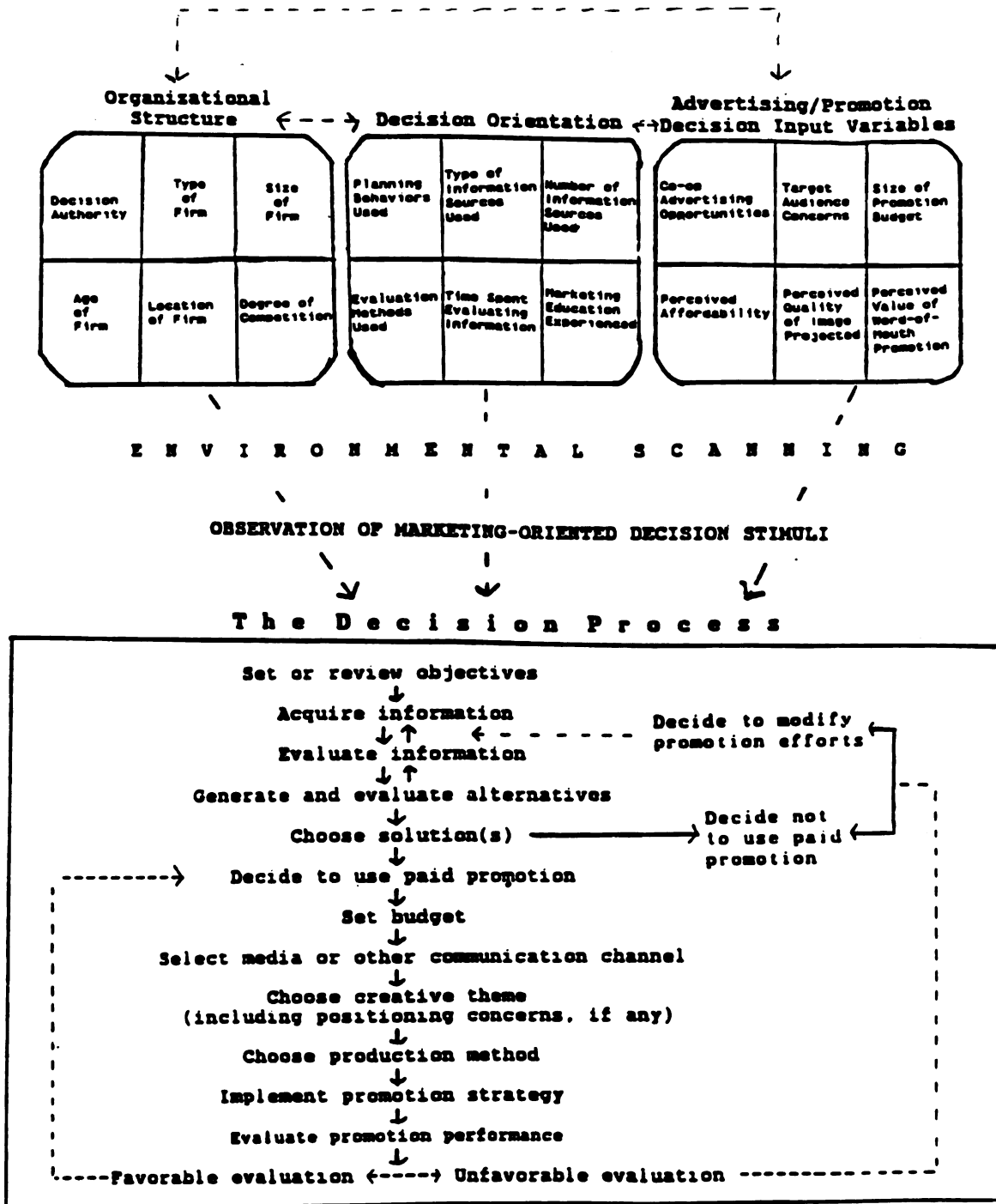


Figure 2.14. A Conceptual Model of the Advertising/Promotion Decision Process in Small Firms

Influencing Variables

The model suggests that several key variables influence the promotional decision process in small firms. The organizational structure of these firms is characterized by a simple management structure where decision authority is held by one CEO or small coalition of decision-makers. Other influential characteristics of the organization are the type of firm, age and size of the firm, location of the firm, and degree of market competition. Decision orientations in small firms are best described by either Bounded Rationality or Social Model theory, depending upon characteristics and proclivities of the individual decision maker(s). The type of decision orientation demonstrated may be indicated by the type and degree of planning behaviors demonstrated, types and number of information sources used, types of evaluation methods employed, and time spent acquiring and evaluating information. Decision orientations may also be linked to the decision-maker's marketing education experience. Six key variables were indicated as relevant to promotion decisions in small firms. They are: target audience characteristics; perceived affordability of promotion strategies; co-op advertising opportunities; perceived value of word-of-mouth promotion; perceived image quality projected by promotion strategies; and total size of the promotion budget.

The Decision Process

The model suggests that environmental scanning by the decision-maker results in the observation of some marketing-oriented stimulus which triggers decision behavior. At this point, the decision maker establishes or reviews marketing objectives in response to the stimulus. For example, the opportunity to cater to a new market may be recognized or the firm may wish to respond to a competitor's efforts. This phase is followed by the acquisition and evaluation of marketing information. It is not clear which or how many sources of information the decision-maker uses, how much time is expended in information acquisition activities, and what types of evaluation methods are employed. After evaluating the information gathered, the decision-maker(s) will generate viable alternatives, evaluate these options, and will arrive at some choice. Although a marketing opportunity or dilemma has been presented, the chosen solution may or may not call for the use of paid advertising or sales promotion activity. For example, the decision-maker may decide that word-of mouth promotion, direct selling, or free publicity is suitable for meeting the firm's marketing objectives. Thus, the option to use paid advertising or promotion may not be chosen. However, if the decision-maker decides to use paid advertising or sales promotion, a budget will be set. It is not clear what criteria the decision-maker uses to set this budget. After a

budget has been established, the decision-maker will choose communication channels, creative, and production strategies perceived to be appropriate to his objectives and budget. Although the literature indicates that financial constraints are a major problem for small firms, it is not clear to what extent cost constraints guide promotion channel selection and creative decisions in small firms. It is also not known to what extent target audience reach, co-op advertising opportunities, perceived image projected, and competition influence channel and message implementation choices. After the promotion choices have been implemented, the decision-maker will observe the business environment for responses to the efforts, perhaps using evaluation methods cited in the literature review. If these efforts are perceived favorably, there is a likelihood that the same or similar decisions will be repeated in the future. If the efforts are perceived unfavorably, the decision-maker will probably decide to modify future promotion efforts and will acquire and evaluate more information before committing to another choice. A decision may also be made to forego paid promotion altogether, instead using some alternative. The type of evaluation method(s) used, if any, to determine promotion performance most likely has a profound effect on judgments relevant to subsequent promotion strategy decisions. Even if no substantive evaluation method is used, the perception of some outcome will still occur.

CHAPTER THREE

METHODOLOGY

The literature review helped identify variables which influence promotion decisions and aided in construction of a conceptual model of the promotion decision process in small firms. However, as the discussion of the conceptual model indicated, several issues had been left unresolved. Moreover, it was not clear that all key decision input variables have been identified. Therefore, a comprehensive set of hypotheses was difficult to develop due to holes in the research and the tentative nature of some empirical findings. Thus, in order to explore unresolved issues and identify other variables, a qualitative phase of the research preceded hypothesis development, instrumentation, and data collection.

Qualitative Data Collection and Findings

Data Collection

Depth interviews were deemed the most appropriate method to explore beliefs, attitudes and behaviors by small business decision makers with respect to advertising and promotion decisions in greater detail than the cited research allowed. Organization structure variables could also be observed. Interview questions were open-ended and interviewees were encouraged by two-way communication. All

interview questions are provided in Appendix IV.

Interviews with eight owners of six small businesses were conducted. The types of businesses represented were a men's clothing store, jewelry store, millinery, a custom doll maker, a natural health, fitness and stress management service and a chiropractic clinic. Most respondents were contacted at a small business trade fair and were recruited based on their willingness to be interviewed. Each interview participant was provided with a signed statement of the purpose of the research and a guarantee of confidentiality on university letterhead. All interviews were conducted in a face-to-face manner with the participants at their places of business. Each interview lasted between one and two hours and was audiotaped with permission.

Interview Findings

Several depth interview responses concurred with findings cited in the literature review. For example, the management structure of each firm was simple, with one or two individuals responsible for key decisions. In cases where the firm was run as a partnership, one of the partners was usually responsible for making all promotional decisions - including writing or selecting copy, illustrative work, and selecting communication channels. The respondents also used a myriad of sources for information about promotion

concerns, including library sources, academic textbooks, relatives, professional consultants, manufacturer's literature, trade associations, other business people and the Small Business Administration's Small Business Development Center (SBDC). They also stressed the value of customer relations in making marketing decisions, however, they noted that this could be difficult due to multiple day-to-day responsibilities. With respect to target audience selection, the interviews revealed that the respondents were highly attuned to the market niche concept, with each firm aiming its promotions at a "particular" kind of customer, identified on the basis of demographic, geographic and/or lifestyle characteristics. In terms of addressing the desired market niche, some respondents were uncertain if the media they selected were the best for reaching the defined audience, and if they were reaching sufficient numbers of people. Respondents believed promotion issues were a key concern, and considered promotion issues on an on-going basis. Some, especially those with fledgling firms, expressed anxiety about promotion decisions. The respondents uniformly believed that promotion was critical to the viability of the firms, but also stated that promotion activity could be very costly. Consistent with the literature's emphasis on financial limitations facing small firms, the respondents believed that costs limited the quantity and quality of promotions that could be sponsored

by small firms. In particular, financial constraints were believed to severely limit access to the electronic media for promotion by small firms. In terms of evaluating the effects of their promotions, respondents mentioned some of the same techniques included in the literature review: monitoring same period sales results, coupons redeemed, prospect inquiries, etc. Only one respondent failed to keep track of response to promotions.

More interesting, however, were responses which added new information to the research. In terms of decision orientations relative to choosing promotions for their firms, a variety of responses was given. Past experience was mentioned by three respondents; some looked at past sales and past seasonal and monthly sales patterns; others looked at cost and affordability; competitor's activities were considered; one asked for advice from business contacts, and another for suggestions from friends. In terms of the role of advertising, all respondents thought advertising was very important to the viability of the firm; moreover, respondents who believed they operated in highly competitive situations appeared willing to spend more on promotion activity in order to maintain viability. They also perceived a difference between traditional mass media advertising and sales promotions. Advertising was believed to be expensive, to reach a larger number of people, and to confer status upon the firm; promotions were believed to be

useful for generating quick response, but reach fewer people. Views on advertising sponsored by small firms were mixed - some believing the ads are creative, effective and attention-getting; others arguing the ads are misleading, poorly-produced, not creative, redundant and portray a poor image of the firm. All believed that large firms held the advantage in advertising in being able to spend more, develop elaborate creative material and special effects, and utilize more media types.

Respondents indicated that budget determination and communication channel selection decisions were interrelated. That is, a major factor in media selection was what the respondent could afford to spend. (Only one firm mentioned using the percentage of sales method in determining the promotion budget; others related the promotion budget to other operating costs.) Respondents reported stretching their advertising budgets by doing cooperative advertising with other firms, using smaller newspaper ads and off-peak radio announcements, and experimenting with less expensive media. Another important factor in media selection was perceived effectiveness in terms of meeting the promotion objective: generating sales, increasing store traffic, etc. Because all were cognizant of budget limitations in media selection, all respondents valued positive word-of-mouth promotion. Some believed word of mouth promotion was more important than paid promotion (especially in the early stage

of the firm), and others thought word-of-mouth promotion alone was insufficient to carry the business.

One area of controversy was the appeal of cooperative advertising. The retail respondents who were familiar with co-op arrangements believed that the concept was good - in theory. In practice however, the retailers indicated that their participation in co-op was limited and declining. They complained that manufacturers often wanted them to promote items that they did not like to carry and that the administrative work and small pay-off on participation hardly made it worth the effort.

The creative elements and final production of advertisements and promotions for the respondent firms was largely dependent on the entrepreneur's skills and resources, since most planned and developed the material themselves. Some were aided by using computer software, clip art (provided by manufacturers or an ad service), copiers, or illustrations provided by friends. Others had material typeset by professional printers or utilized the services of the local newspaper or radio station's advertising department. As a basis for their creative decisions, respondents considered characteristics of their desired audience and, sometimes, competitor's efforts. Some respondents imitated competitor's strategies that were believed to be effective. (For example, if a competitor offered a "Moonlight Madness" sale, the respondent might

have a "Midnight Madness" sale; if a main competitor ran a Yellow Pages ad, so might the respondent.) All respondents wanted to communicate a positive image of the firm. In order to improve their advertising and promotion, some respondents incorporated pictures and photographs, had materials professionally typeset and/or included some unique element to help the ads stand out. Most believed they could not afford fancy and elaborate advertising techniques, and sought to minimize production costs. Techniques used to minimize production costs included doing artwork themselves, appearing in one's own ads (or using an employee), and using computer software for graphics.

Variable Constructs and Operationalizations

Variables were identified from the literature review and the qualitative data collected. The independent variables are those which appear to influence the promotion decision process. These independent variables have been classified into three categories: organizational structure factors which relate to the firm; decision orientation factors which relate to individual decision-maker(s); and factors which generally relate to advertising and promotion decision situations. The dependent variables are those decision activities and behaviors demonstrated by the decision-makers. The variables are identified and operationalized below.

Independent Variables

Organizational Structure Factors

Seven variables were related to the organizational structure of the firm. First was decision authority, described on the basis of the legal form of the organization (proprietorship, partnership, or corporation/S-corporation) and identification of the individual(s) responsible for promotion decisions. Second, was an identification of the type of firm or business, described as retail or service, using U.S. SIC Code 2-digit classifications described in Appendix III. A third factor was the size of the firm, measured in ranges, by number of employees and annual revenues. A fourth variable, age of the firm, was measured in ranges of years. (All variable ranges are indicated in Appendix V.) Fifth, the operating environment of the firm was described as either a commercially zoned area or a private home/residence. Sixth, the location of the firm in its normal trading zone was described as an urban, suburban or rural location. Seventh, the degree of local market industry competition, based on the perception of the decision-maker, was classified as low, moderate, or high.

Decision Orientation Factors

Several variables were related to individuals' decision orientations. Decision-makers identified types of information used for promotion decisions from a list of 25 sources; the number of information sources used for

promotion decisions were indicated from the same list. (The list of information sources was adapted from the list illustrated in Appendix II.) Decision-makers also indicated about how many hours (in ranges), on a weekly basis, were devoted to the study of promotion-related information.

Respondents also indicated what type of marketing education, if any, they had experienced, given the following choices: SBA marketing seminars, Small Business Development Center (SBDC) classes, college/university marketing degree program, college/university marketing courses, private marketing seminars, and other (specified by respondent) marketing education. If the respondents had not experienced any marketing education, they were able to respond "no formal marketing education." These marketing education classifications were then used to group respondents into "formal marketing education" and "no formal marketing education" groups.

Several decision orientation factors were developed to be measured using 4-point Likert-type scales. The scaled responses allowed for the calculation of means and variances and provided for a measure of intensity of responses. Respondents indicated the perceived relative importance ("not important"; "somewhat unimportant"; "somewhat important"; "very important") to three planning orientations: (1) importance of operational planning activities; (2) importance of maintaining written promotion

plans; and (3) importance of setting specific promotion objectives. Respondents also indicated the frequency ("never", "seldom", "frequently", "always") with which various methods were used to evaluate future promotion opportunities and to evaluate the effectiveness of past promotion activities.

Promotion-related Decision Input Factors

These variables concerned issues generally associated with promotion decisions. One factor, size of the promotion budget, was measured in dollar ranges. All other factors required scaled responses, again using 4-point Likert-type scales. Respondents indicated the relative importance ("not important"; "somewhat unimportant"; "somewhat important"; "very important") of several decision input factors when making promotion choices in different decision categories (i.e. budget, media selection, creative, and production decisions). These decision input factors were: target audience characteristics, perceived affordability of the promotion opportunity, image quality of the promotion strategy, competitor's promotion efforts, co-op advertising opportunities, seasonal/holiday sales periods, and promotion production cost levels. Respondents also indicated the relative value ("not at all valuable", "not very valuable", "somewhat valuable", "very valuable") of various promotion options: word-of-mouth promotion, traditional mass media advertising and sales promotion opportunities.

Dependent Variables

Decision Process Behaviors/Activities

The dependent variables are those decision activities and behaviors demonstrated by the decision-makers as they relate to the decision-making process. Promotion objective-setting behaviors were measured on the basis of planning orientations indicated by the decision-maker. Promotion information acquisition activities were measured on the basis of the type and number of information sources used by decision-makers. Promotion opportunity and performance effectiveness evaluation practices were measured on the basis of methods reported to evaluate future promotion opportunities and the effectiveness of past promotion activities. Finally, using scaled responses, the relative weight of various decision input factors (size of the promotion budget, perceived affordability, target audience characteristics, etc.) common to promotion decisions was determined in terms of the impact on setting promotion budgets, selecting media, determining creative content and choosing production techniques.

Judgement Items and Classification

Three sets of variables requiring scaled responses also required judging by parties not involved with the research project so that these factors could be objectively categorized and subsequently analyzed. Judging was

performed by 25 small business people, marketing students and marketing professors.

The first set of variables judged involved the type of decision orientation manifest by the decision-maker. A measure of "rational" decision behavior may be based on the degree of objectivity applied in decision-making situations. For this study, methods used to assess promotion alternatives were listed. Judges were asked to review these decision techniques (listed in item 7 on the survey) and to classify the methods based on perceived degree of objectivity. The most objective methods were coded as "CR"; these methods are most closely associated with Classical Rational Decision Theory. Moderately objective decision methods were coded "BR"; these methods are associated with Bounded Rational Decision theory. The most subjective decision methods were coded "SM"; these methods are associated with Social Model Decision Theory.

The second set of items was judged using a scheme similar to that just described. Methods used by small business people to evaluate past promotion activity were observed and classified. (These methods appear in item 15 on the survey.) Using relative objectivity as the criterion for classification, judges labeled the methods as "Objective," "Moderate," or "Subjective."

The third set of variable classifications involved describing techniques used to reduce or increase the costs

(and quality) of producing promotion material. Depth interview respondents provided a number of techniques which might be used to reduce costs or to enhance the quality of promotions; the enhancement strategies mentioned also tended to be relatively expensive, given the other options. (These strategies are listed in item 14 of the survey.) Those techniques which reduced the cost of promotion were labeled "cost-minimization" strategies; techniques which raised the cost of promotions were labeled "cost-enhancers." Judges identified items as either cost reducers or enhancers.

During the data analysis stage, scores for the respective categories judged above were summed and averaged to produce a mean summary statistic; the group means were then compared. Reliabilities between judges responses are also reported in Appendix VI.

A fourth set of variable classifications concerned a definition of traditional mass media advertising and non-media sales promotion strategies and did not require the use of judges. Survey respondents were asked to determine the relative value of traditional mass media advertising alternatives and sales promotions not necessarily carried in the mass media. For purposes of this research, the traditional mass media were defined as those identified and measured by the BAR/LNA Multi-Media Service (1988). The media are newspapers, newspaper supplements, radio, TV (including cable), consumer magazines, billboards, and

direct mail. Sales promotion alternatives including word-of-mouth, yellow pages, flyers and handbills, brochures, store signage and premiums were considered non-media sales promotion tools. (Various promotion opportunities were listed in item 10 of the survey.) At the data analysis stage, scores for advertising and non-media sales promotions, respectively, were summed and averaged so that a summary statistic for each category could be computed and compared.

Hypothesis Development

From the literature review, theoretical framework and qualitative data collected, several hypotheses for investigation were developed. Supporting arguments precede the hypotheses.

Setting objectives was identified as essential to the promotion planning process (Patti & Frazer, 1988; Schultz, 1990; Ray, 1973; Blattberg and Neslin, 1990). Many small firms have been found to routinely engage in operational (short-term) planning behavior (Shrader et al., 1989; Gable & Topol, 1987; Robinson et al., 1986b) and have identified advertising and promotion planning as operational planning activities (Gable & Topol, 1987). However, as the theoretical model suggests, promotion planning activities in firms characterized by a simple management structure are contingent upon the planning practices and decision

orientations of the dominant decision-maker. Thus, it is predicted:

- H1a:** There will be a direct relationship between the perceived importance of short-term (operational) planning and the perceived importance of maintaining written promotion plans in small firms.
- H1b:** There will be a direct relationship between the relative importance of setting specific objectives for promotions and the amount of time spent studying promotion information.

Although small business decision makers utilize various sources of information in decision-making (Welsh & Young, 1982; Rice and Hamilton, 1979; Peterson, 1984; Franklin and Goodwin, 1983), it is not clear which sources they use to acquire information for promotion planning. Young and Welsh (1983) found small business decision makers to prefer electronic sources of information for promotion decisions, although the qualitative data (Appendix IV) indicates a preference for a variety of interpersonal, institutional, and written sources. Moreover, in non-marketing situations, Young and Welsh (1983) found that entrepreneurs generally preferred to obtain information from interpersonal sources. (Categories of information sources are listed in Appendix II). Thus, it is predicted:

- H2a:** Small business decision makers prefer interpersonal sources of information when making promotional decisions, relative to institutional, written, or electronic sources.

As small firms mature, it is expected that approaches to marketing decisions become more sophisticated (Tyebjee, 1985; Carson, 1985) with greater accessing of marketing information from various sources likely. Eventually,

mature, successful small firms may be able to afford professional marketing research and assistance (via agencies or consultants), thus eliminating the need for numerous sources of information. In addition, as the level of outside marketing assistance increases, it is likely that the entrepreneur needs to spend less time acquiring and evaluating marketing information. Thus, it is predicted:

H2b: The number of information sources used for promotional decisions will increase in a curvilinear manner as the size and age of small firms increase; and as the promotion budget increases, respectively.

H2c: The time spent studying promotional information will increase in a curvilinear manner as the size and age of small firms increase; and as the promotion budget increases, respectively.

The theoretical framework suggested that the evaluation of marketing information and promotion performance feedback is rooted in the decision-maker's general orientation toward decision making. Decision orientations may range from the highly rational and objective as described by Classical Rational decision theory to the highly intuitive and subjective as described by Social Model theory. Small business decision makers have been found to demonstrate less rational decision orientations than their large firm counterparts, gathering less information and performing less rigorous analysis (Smith et al., 1988). However, Varadarajan's (1985) study of promotion evaluation methods used in small firms revealed fairly objective evaluation techniques. Differences in decision orientations may be

associated with a decision maker's education experience. With respect to marketing education, scholars (Arndt, 1985; Kotler, 1984; Charnes et al., 1985; Braverman, 1980; Montgomery & Urban, 1969) have indicated traditional marketing education's roots in the logical empiricist paradigm; this type of education may encourage the decision maker to be more analytical and "rational." Thus, it is predicted:

- H3a:** Decision-makers who have experienced formal marketing education will use more information sources than those who have not had formal marketing education.
- H3b:** Decision-makers who have experienced formal marketing education will spend more time studying promotional information than those who have not had formal marketing education.
- H3c:** Evaluation methods used by decision-makers who have experienced formal marketing education will be more objective than those who have not had formal marketing education.

A number of factors were indicated as influencing specific types of promotion decisions in small firms. It is not clear what is the relative impact of these factors on the primary promotion decision categories, which include budgeting, media selection, creative and production strategy. The next set of hypotheses explore these decision categories.

Promotion budget decisions in small firms have been indicated to be influenced by perceived affordability (Varadarajan, 1985), type of firm (Otnes & Faber, 1989), and firm location (Gaski & Malone, 1986; Becker & Kaldenberg,

1990). Qualitative data (Appendix IV) suggests that competitive activity in the market also influences the promotion budget size; firms may spend more to remain viable. However, given that severe financial constraints have been cited (Tate et al., 1985; Solomon, 1986; Mauer, 1987a, 1987b) as generally limiting budgets in small firms, it is predicted:

- H4a:** Perceived affordability is the primary variable influencing the budget decision in small firms, regardless of firm type, operating environment, location, or degree of competition.
- H4b:** Promotion budgets for firms perceived to be in intensely competitive market situations will be larger than those in competitive situations perceived as low and moderate.

The literature also suggested there may be influences on promotion decisions that are more pertinent for retail rather than service firms. For example, co-operative advertising has been suggested as a means of increasing the promotion budget (see Young & Greyser, 1984); it has also been noted that co-op advertising opportunities for retail firms abound and that small retailers should make use of co-op opportunities (Knight & Crimmins, 1985). The qualitative data also indicated that seasonality, especially holiday periods, influences the budget for retailers. It is predicted:

- H4c:** After perceived affordability, co-op advertising opportunity is the primary variable influencing the budget decision in small retail firms.
- H4d:** Seasonality is viewed as more important by small retail firms than service firms in influencing the budget

decision.

A variety of traditional mass media advertising and sales promotion channels are used by small firms (Jackson et al., 1979; Gaski & Malone, 1986; Otnes & Faber, 1989; Larkin & Hecht, 1979; Patti & Walker, 1980; Van Auken et al., 1992; Varadarajan, 1985). Data on variables influencing communication channel selection for small firm promotions suggested a mix of factors including type of firm and size of the promotion budget (Otnes & Faber, 1989); characteristics of the target audience (Vacarro & Kassaye, 1989); and affordability (Cassell, 1983; Gray, 1984; Seglund, 1985). The literature review (Peterson, 1991) and qualitative data (Appendix IV) emphasized that small business people were very much attuned to the market niche concept, and were likely to include target audience considerations in promotion channel decisions. The qualitative data also indicated that competitive activity in the market might also influence the promotion channel decision as firm's attempt to imitate each other's strategies or reach similar customers. However, entrepreneurs believed that some promotion channels, especially electronic mass media channels, were not affordable. Thus, it is predicted:

H5a: Promotion budget size, target audience characteristics and competitive efforts are the key influences on promotion media channel selection decisions by small business decision-makers, regardless of firm type.

That entrepreneurs generally face substantial financial constraints has been widely discussed (see Tate et al., 1985; Soloman, 1986; Mauer 1987a; Mauer 1987b). Thus, when faced with promotion channel decisions, entrepreneurs may assume that it is feasible to allocate financial resources such that the largest number of potential customers are reached. Mass media advertising, therefore, may be more perceived as more desirable than alternative non-media sales promotion channels since the mass media, by definition, reach more people. When discussing various types of promotion channels, depth interview respondents (Appendix IV) perceived a difference between traditional mass media advertising and non-media sales promotion options, such as flyers and premiums. Advertising was noted for its perceived high expense, ability to reach a large number of people, and ability to impart status or a quality image; non-media promotions were viewed as generating immediate response, but reaching fewer people. Both were associated with generating awareness of the firm. Views on the relative value of mass media advertising versus sales promotions were mixed. However, it is predicted:

H5b: Small business entrepreneurs, in general, place a higher value on mass media advertising than on non-media sales promotion channels.

With respect to promotion channel selection, several articles recognized the value of word-of-mouth promotion for small firms. Both Tyebjee et al. (1985) and Carson (1985)

suggested that word-of-mouth was an important promotion channel for firms in the early stages of existence; Reingen and Kernan (1986) suggested that word-of-mouth promotion is a particularly important channel for service marketers. The qualitative data, however, (Appendix IV) provided mixed feedback on the perceived value of word-of-mouth promotion versus paid promotion. Nevertheless, two testable hypotheses are offered:

- H5c:** Small firms, in general, place a higher value on paid promotion than on word-of-mouth promotion.
- H5d:** Word-of-mouth is perceived as a more valuable promotion channel among service firms than among retail firms.

Although data on developing creative messages and managing the image of small firms via creative material was sparse, a trade publication (see "Creating an Image", 1986) indicated that the majority of small business entrepreneurs write their own promotion copy or delegate the task within the firm, and are very concerned about the image of the firm. A minority of small firms used the creative services of outside agents. In terms of content of the promotion material, the qualitative data (Appendix IV) indicated that entrepreneurs based their creative decisions on target audience characteristics, competitor's efforts, and attempts to portray quality images. In addition, retailers used co-op advertising materials provided by manufacturers. It is predicted:

H6: Small firm decision-makers are primarily influenced by the relative importance of perceived image quality, target audience characteristics, and competitive efforts, respectively, when choosing creative themes for promotion.

Practitioner-oriented literature (Dean, 1980; Cassell, 1983; Gray, 1984) suggested that cost concerns and image portrayed are major factors in choosing production techniques for promotion material. Qualitative data (Appendix IV) support these ideas, and suggest that production work may be provided by media vendors, videographers, local printers, and manufacturers who provide materials for co-op advertising. The entrepreneur may prepare his own promotion material, using personal computers, copiers, clip art, and other resources. Thus, the quality of production work varies significantly for small business promotion material. Depth interview respondents also reported using various methods to minimize production costs. Given these circumstances, small business entrepreneurs may make conscious tradeoffs in terms of image quality and cost when producing promotional material. It is suggested:

H7a: Small business entrepreneurs believe low cost advertising production methods project a poor image of the firm.

H7b: Small business entrepreneurs regard cost minimizing production strategies as more important to their marketing efforts than more expensive methods (generally associated with enhancing production quality).

Different approaches to promotion decisions in the described categories on the basis of various firm characteristics are also plausible. For example, retail firms, which sell goods, and service firms, which sell intangibles, may differ in their approaches to promotion decisions. In addition, location of the firm (Gaski & Malone, 1986; Becker & Kaldenberg, 1990) may also influence decision approaches. Differences between approaches may also become apparent when comparing decision behaviors between firms run from the home and those which operate in commercial zones. For example, promotions may have to be more aggressive or targeted for home-based firms, since customer traffic in residential areas is unlikely. Thus, differences in influences on promotion decisions will be explored among:

- a) retail and service firms;
- b) firms located in urban, suburban, and rural areas, respectively;
- c) firms operated from private residences and firms operated in commercial districts.

Research Assumptions

The literature review on entrepreneurs and small firms (see Dean, 1980; Wichmann, 1983; Tate et al., 1985; Carson, 1985; Tyebjee, 1985; Mauer, 1987a; Mauer 1987b; Stephenson, 1983) suggests several assumptions which are relevant to this area of inquiry:

- 1) The management structure in small firms is simple, characterized by one or very few decision-makers. The firms operate at low levels of formalization and complexity.
- 2) Small firms' marketing activity tends to be characterized by substantial financial constraints, largely associated with a limited equity base and/or uncertain cash flow.
- 3) Small firm entrepreneurs experience a lack of sufficient time to devote to advertising/promotion concerns since they tend to direct their attention to various operational areas of the firm on a regular basis.
- 4) Small firm entrepreneurs constantly scan the business environment for opportunities to spur business; marketing-oriented stimuli trigger the promotion decision process.

Quantitative Data Collection Method

Mail Survey

Based on the nature of the study and the characteristics of the sample, a printed survey questionnaire was used as the instrument for data collection. The survey was supplied to small business decision-makers by mail, and was self-administered by the respondents.

Method Justification

There were several justifications for the mail survey methodology. Unlike telephone surveys or personal interviews, which may be interrupted by demands on the decision-maker, a self-administered questionnaire may be completed at the respondent's convenience. In addition, Forsgren (1989) observed that mail surveys are perceived by

small business owners to offer a higher degree of anonymity than personal interviews and telephone surveys. Thus, sensitive data, such as sales figures and budgets may be more easily and accurately obtained from a mailed survey.

Sampling and Survey Administration

Sampling Frames

Samples were randomly drawn from two groups. One group of respondents was drawn from the client base mailing list of the Wayne State University Small Business Development Center (SBDC). (Hereafter, this group will be referred to as the SBDC Group). This group was selected on the basis of its participation in a formal government (SBA) sponsored business education program. Marketing education is included in this program, in the form of classes and consultation. The second sample (hereafter referred to as the General Group) consisted of a randomly drawn list from a commercial data base. The list of firms was purchased from Dun and Bradstreet's Marketing Services Division. This firm's data base lists small firms by size (number of employees), by state, and by industry (using U.S. Standard Industry Classification Codes). According to Dun and Bradstreet's Information Services Division, the research arm of the company, the small business contact list is based on credit inquiries from suppliers, banks and insurance companies; the list is updated as credit inquiries are received. The addresses requested were for independently owned firms with

up to 100 employees located in five midwestern states: Michigan, Ohio, Indiana, Illinois and Wisconsin. In addition, the addresses were drawn from the following retail and service firm 2-digit SIC codes: 53 (General Merchandise Stores); 56 (Apparel and Accessory Stores); 57 (Furniture and Home Equipment Stores); 59 (Miscellaneous Retail); and 72 (Personal Services). Dun and Bradstreet showed 119,828 records matching this request. (Appendix III provides a detailed listing of the types of businesses falling into these broad industry classifications.)

Sample Size

Eight hundred surveys were mailed to the General Group, and 200 were mailed to the SBDC Group for a total of 1000 surveys. A response rate of at least 20% was sought from each group.

Non-response Correction

The generation of a significant response rate was a major concern. Because response rates from samples of small business owners have tended to be relatively low in earlier studies (20% and below), several strategies to boost response rates, based on prior research (Dillman, 1978; Forsgren, 1989) were employed. They were:

1. The inclusion of a cover letter expressing altruistic ("We need your help...") and egoistic ("You are important...") appeals, describing the importance and relevance of the survey.
2. The use of university letterhead, a contact name and telephone number on all correspondence to enhance credibility.

3. An express guarantee of anonymity and individual privacy.
4. Non-personalized cover letters. Andreassen (1970) found personalized cover letters to reduce responses from samples of business people since they perceived a greater threat to anonymity.
5. The inclusion of postage paid return envelopes.
6. The inclusion of a deadline for return of responses.
7. The use of a pre-survey notification letter and a post-survey follow-up letter directed to the entire sample.

Instrument Design and Pretesting

A number of efforts were made to enhance the reliability of the instrument and the interpretation of results. The survey was constructed such that items could be answered quickly, completely, and with minimal error. Items were written in an unambiguous manner using nontechnical language. Alpar and Spitzer (1989) found that entrepreneurs tended to omit survey items they perceived as requiring too much thought or research time. Instructions were simple and clearly stated. In order to minimize response time and to discourage non-response, allowable responses were mainly of the closed-ended type and items which required ranking or extensive reflection were avoided. In order to facilitate error-free and complete responses, most items were constructed such that responses could be circled; items which investigated specific amounts (annual sales figures, for example) were phrased such that only range responses were required. The formulation of complex questions was also avoided, since Alpar and Spitzer's (1989)

investigation showed that the number of improper survey responses rose dramatically with increased item complexity. In order to measure intensity of responses, a number of 4-point Likert-type scales were developed.

Two pretests of the survey instrument were conducted in July 1992, at different classes conducted at the Wayne State University Small Business Development Center. Pretest Group One had 25 members and Pretest Group Two had 17 members.

(These people were eliminated from the survey mailing list.) The purpose of the pretesting was to uncover and correct any difficulty with language, syntax, response choices, scaling or question order. Each group was given a brief explanation of the survey and each member was asked to complete one. Each survey included a comment page at the back so that concerns about specific questions could be indicated. A separate sign-up sheet was provided at each pretest session for purposes of elimination from the mailing list. After completion of the surveys, a group discussion was lead by the researcher to obtain feedback on the instrument (in addition to the written comments).

Respondents from the first pretest group were flattered to be asked to answer the survey. They had opinions to express and felt that opinions of the small business person were generally neglected. They believed the close-ended response choices were realistic and comprehensive. The main problems indicated were that some believed the questionnaire

was too long and some questions (related to variables which influenced promotion decisions) were too redundant. One respondent did not like the Likert-type scales believing it threw respondents into a "test" mode although others disagreed. A suggestion was made by the researcher to expand the response scales from four points to ten - this idea was flatly rejected. The respondents believed expanding the scales would make it too difficult to respond and would result in numerous omitted items. Two minor language errors were indicated.

The questionnaire was subsequently revised after the first pretest. The revised pretest was shortened slightly, question order was manipulated in order to eliminate redundancy and language errors were corrected. A pretest was conducted with the second group and no real problems were indicated. Comments included, "Very good, in-depth questionnaire" and "Good questions. I enjoyed your questionnaire." The pretest copies had been typed using Wordperfect and had been copied using a Xerox machine. The group suggested that the survey could look better in terms of typeset and layout. The survey was then more attractively reproduced using desktop publishing software and a laser printer. (This became the version of the survey which went out to the final sample.) A sample of the advance letter, cover letter and survey, and follow up letter are included in Appendix V.

Survey Administration Procedures

Appropriate survey, letter, and envelope materials were printed and duplicated. All mailing material was directed through the Department of Advertising at Michigan State University. An advance letter, explaining the purpose of the research, guaranteeing respondent anonymity, and encouraging participation, was sent to all firms selected for the research on August 10, 1992. The cover letter and survey instrument followed one week later; a postage-paid return envelope was also supplied with the survey. A follow up letter to the entire sample was mailed August 27. The follow up letter thanked those who had already responded and encouraged those who had not to return their questionnaires. In order to differentiate between the SBDC Group and the General Group in the return mail, a small dash (-) was marked near the letterhead of each survey which went to the SBDC Group. The cancelled postmark was used to track the state of origin of responses for all other mailings.

CHAPTER FOUR

RESULTS OF STATISTICAL ANALYSES

Introduction

The results of the statistical analyses used in evaluation of the collected data are presented in this chapter. The primary statistical techniques used for analysis were simple linear regression, Pearson's correlation coefficient, analysis of variance (ANOVA), and t-tests of differences between means. Simple linear regression and correlation was used to examine the relationship between variables when two factors are indicated in the hypothesis. ANOVA was used to assess differences between groups or categories indicated in several hypotheses. T-tests looked at differences among selected paired comparisons and looked at some ANOVA comparisons in more detail. The data were processed using Version 2.0 of the SPSS PC+ software package.

A summary of responses to the questionnaire items precedes the hypothesis testing. Each hypothesis is then stated and the data are interpreted in light of the statistical model used for the analysis. An alpha level of .05 was specified for this analysis. Discussion of the implications of the statistical findings follow in the next chapter.

Questionnaire Summary

Response Rate

A total of 144 usable surveys was returned, equal to a response rate of 14.4%. Although this rate was less than desired, it was within the normal range of responses from small business owners and managers, based on other survey research with small business decision-makers.

Business Classification, Organization and Decision Authority

On the basis of U.S. Standard Industry Classification (SIC) codes, 54.8% of the firms responding were retailers and 38.9% were service firms. Table 4-1 provides more detail on the types of firms studied. Most of the firms (66.7%) normally operated out of commercially zoned areas and 31.9% were based in private homes. More than half (52.8%) of the businesses were organized as sole proprietorships; 37.5% had incorporated; and 9% were run as partnerships. For the vast majority of the firms (86.1%) responsibility for making promotional decisions rested with the owner or principal manager of the firm. A detailed report on promotion decision-makers in the firms is provided in Table 4-2.

Table 4-1. Business Type by 2-Digit Major Group SIC Code

<u>SIC Code*</u>	<u>Type of Business</u>	<u>N</u>	<u>% of Sample</u>
53	General Merchandise Store	8	5.6
56	Apparel Store	11	7.6
57	Home/Furniture Store	13	9.0
59	Misc. Retail	47	32.6
72	Personal Services	56	38.9
	(No Response)	<u>9</u>	<u>6.3</u>
	TOTAL	144	100.0

 * A fuller description of the types of business activities associated with each SIC Code is provided in Appendix III.

Table 4-2. Party Responsible for Promotion Decisions

<u>Decision Authority</u>	<u>N</u>	<u>% of Sample</u>
Owner/Manager of Firm	124	86.1
Business Partner(s)	16	11.1
Employee(s)	1	.7
Agent(s)	0	0.0
(No Response)	<u>3</u>	<u>2.1</u>
TOTAL	144	100.0

Age and size of firms

The majority of firms responding (54.9%) had been in business more than ten years; 13.9% and 13.2% of the firms had operated between 1-3 and 4-7 years, respectively. The relative maturity of the firms may be based on the use of Dun and Bradstreet as a source for the names and addresses of three-fourths of the firms. (According to Dun and Bradstreet Information Services, the database for the list of small firms was based on credit inquiries from suppliers, banks and insurance companies. These records are updated on a continuous basis.) In terms of size of the firms on the basis of number of employees, 51.4% of the sample employed between 3 and 10 people, and 34% employed 1 or 2 people (including the owner/manager). On the basis of revenues, earnings were scattered between less than \$10,000 to \$3 million per year; the largest percentage (23.6%) reported earning between \$100,000 and \$250,000 annually. Only two firms (1.4%) earned in excess of \$3 million. A more detailed report on firm size data is provided in Tables 4-3 and 4-4.

Table 4-3. Age of Firms

<u>Age Category</u>	<u>N</u>	<u>% of Sample</u>
Less than 1 year	10	6.9
1 - 3 years	20	13.9
4 - 7 years	19	13.2
8 - 10 years	15	10.4
More than 10 years	79	54.9
(No Response)	<u>1</u>	<u>.7</u>
TOTAL	144	100.0

Table 4-4. Size of Firms by Number of Employees and Sales Revenues

<u>Number of Employees*</u>	<u>N</u>	<u>% of Sample</u>
1 or 2	49	34.0
3 - 10	74	51.4
11 - 2	11	7.6
21 - 5	4	2.1
51 - 1	2	1.4
More than 100	1	.7
(No response)	<u>3</u>	<u>2.1</u>
TOTAL	144	100.0

<u>Sales Revenues</u>	<u>N</u>	<u>% Of Sample</u>
Less than \$10,000	23	16.0
\$10,001 - 25,000	9	6.3
\$25,001 - 50,000	11	7.6
\$50,001 - 100,000	19	13.2
\$100,001 - 250,000	34	23.6
\$250,001 - 500,000	18	12.5
\$500,000 - 1,000,000	11	7.6
\$1,000,001 - 3,000,00	11	7.6
\$3,000,001 - 5,000,00	1	.7
\$5,000,000 - 10,000,0	0	0.0
More than \$10,000,000	1	.7
(No response)	<u>6</u>	<u>4.2</u>
TOTAL	144	100.0

 *Includes the owner/manager of the firm.

Business Location

Table 4-5 provides details concerning the location of the respondent firms in terms of state or area of origin and a description of that location (city, suburb, or rural area). Just over a third of the respondents were from the state of Michigan; of these, 52% were affiliated with the Wayne State University SBDC (Small Business Development Center) and 48% were from the Dun and Bradstreet database, not affiliated with the SBDC. Because of illegible postal service marks, the state of origin for 14.6% of the responses could not be determined. It is suspected that this problem is responsible for the lower reported response rates from Indiana and Wisconsin. Most of the firms responding were located in a city; one-third were located in a suburb, and fewer than 20% were located in a rural area.

Table 4-5. Location of Firms

<u>Origin</u>	<u>N</u>	<u>% Of Sample</u>
Metropolitan Detroit (WSU SBDC Group)	26	18.1
Illinois	24	16.7
Indiana	10	6.9
Michigan	24	16.7
Ohio	21	14.6
Wisconsin	18	12.5
Origin Unknown*	<u>21</u>	<u>14.6</u>
TOTAL	144	100.0

<u>Location Description</u>	<u>N</u>	<u>% of Sample</u>
City	69	47.9
Suburb	48	33.3
Rural Area	26	18.1
(No response)	<u>1</u>	<u>.7</u>
TOTAL	144	100.0

 *Postmark not legible.

Decision-Maker's Characteristics

The gender split for the sample was approximately 60% male/40% female. Ages were clustered primarily into the 35-49 and 50-65 age groups. With respect to education, just over 30% of the respondents had completed high school and slightly more than 20% had completed four years of college. In terms of ethnic identity, the vast majority (86.2%) of the sample was white; less than 20% of the sample consisted of ethnic minorities. A more detailed report on characteristics of the respondents is provided in Table 4-6.

Table 4-6. Characteristics of Respondents

<u>Gender</u>	<u>N</u>	<u>% of Sample</u>
Male	86	59.7
Female	54	37.5
(No response)	<u>4</u>	<u>2.8</u>
TOTAL	144	100.0

<u>Age</u>	<u>N</u>	<u>% of Sample</u>
Under 18	0	0.0
18 - 24	1	.7
25 - 34	20	13.9
35 - 49	62	43.1
50 - 65	46	31.9
Over 65	12	8.3
(No response)	<u>3</u>	<u>2.1</u>
TOTAL	144	100.0

<u>Education Level</u>	<u>N</u>	<u>% of Sample</u>
Less than High School	3	2.1
Completed High School	45	33.3
Trade School	16	11.1
2-year College	25	17.4
4-year College	33	22.9
Graduate/Professional School	19	13.2
(No response)	<u>3</u>	<u>2.1</u>
TOTAL	144	100.0

<u>Ethnic Identity</u>	<u>N</u>	<u>% of Sample</u>
White/Caucasian	119	82.6
Black/African American	13	9.0
Hispanic	4	2.8
Asian/Pacific Islander	1	.7
Native American	0	0.0
Arabic/Arab American	1	.7
Other/Mixed Race	1	.7
(No response)	<u>4</u>	<u>2.8</u>
TOTAL	144	100.0

Decision-Maker's Planning Orientations

Decision-makers were asked to determine the relative importance of three planning variables in the operation of the firm. One was the importance of short-term (operational) planning. (Operational planning activities include such functions as sales, promotion, payroll, billing, and inventory.) Another involved the importance of setting specific goals for promotions, and the third concerned the importance of maintaining written plans for promotion activities. Respondents were also asked to indicate how much time was spent each week studying promotion-related issues. Responses to these items are reported in Tables 4-7 and 4-8.

Table 4-7. The Relative Importance of Various Planning Factors to Small Business Decision-Makers

Relative Importance: (% of Sample):	Very <u>Imp.</u> %	Smwhat. <u>Imp.</u> %	Smwhat. <u>Unimp.</u> %	Not <u>Imp.</u> %	Scale <u>Mean*</u>
Factor:					
Operational Planning	68.1	23.6	6.3	1.4	3.6
Setting Specific Promotion Objectives	47.2	39.6	6.3	5.6	3.3
Maintaining Written Promotion Plans	21.5	33.3	26.4	17.4	2.6

*where:

- 1 = Not important
- 2 = Somewhat unimportant
- 3 = Somewhat important
- 4 = Very important

Table 4-8. Weekly Amount of Time Spent Studying Advertising and Promotion Issues in Small Firms

<u>Time Range</u>	<u>N</u>	<u>% of Sample</u>
Less than one hour	70	48.6
Between 1-2 hours	41	28.5
Between 2-5 hours	21	14.6
Between 5-10 hours	9	6.3
More than 10 hours	<u>3</u>	<u>2.1</u>
TOTAL	144	100.0

Different methods were identified from the literature and qualitative data which described ways in which business people might consider and evaluate strategies for marketing their firms. Methods used to consider future promotion opportunities and their frequency of usage are reported in Table 4-9. Decision makers also were asked to indicate which methods they used to evaluate their past promotion strategies. On the survey instrument, respondents were given the option to indicate that they "never" evaluated past promotion strategies if that choice applied to them; twenty-seven respondents (18.8% of the sample) said they "never" evaluated past promotion activities. In addition, a substantial number of respondents (ranging from 14% to 20%) failed to respond to each evaluation method item listed in the survey. These evaluation methods, and their frequency of usage, are reported in Table 4-10. (Those who indicated "never" evaluating promotions and non-responses to these items were eliminated from the totals.)

**Table 4-9. Usage Frequency of Various Decision Methods
by Small Business Decision-Makers
in Assessing Promotion Opportunities**

Frequency of Usage:	<u>Always</u> N/%	<u>Freq.</u> N/%	<u>Seldom</u> N/%	<u>Never</u> N/%	<u>Total</u> N/%
Decision Method:					
"I use a computer program to simulate my marketing situation."	1 .7	6 4.3	21 15.3	109 79.6	137 100.0
"I rely on past experience."	54 38.0	80 56.3	5 3.5	3 2.1	142 100.0
"I basically use my own intuition."	43 30.1	90 62.9	9 6.3	1 .7	143 100.0
"I use statistical techniques like game theory, to test marketing outcomes."	2 1.4	11 8.0	35 25.3	90 62.2	138 100.0
"I look at what my competitors are doing."	32 22.5	55 38.7	39 27.4	16 11.2	142 100.0
"I rely on the suggestions of family and friends."	7 5.0	41 29.1	64 45.4	29 20.6	141 100.0
"I draw decision trees to predict probable outcomes."	1 .7	7 5.0	22 15.7	110 78.6	140 100.0
"I use advice from business contacts."	15 10.6	80 56.3	29 20.4	18 12.6	142 100.0
"I use guesswork to figure what might be most effective."	8 5.8	27 20.8	59 43.0	44 31.9	138 100.0

(Non-responses to these items were eliminated from the calculations in this table.)

**Table 4-10. Usage Frequency of Various Evaluation Methods
by Small Business Decision-Makers
in Assessing Past Promotion Activity**

Frequency of Usage:	<u>Always</u> N/%	<u>Freq.</u> N/%	<u>Seldom</u> N/%	<u>Never</u> N/%	<u>Total</u> N/%
Evaluation Method:					
"I note changes in customer traffic."	33 35.1	47 50.0	9 10.0	5 5.3	94 100.0
"I listen to customers talk about the promotion."	35 36.8	52 54.7	6 6.3	2 2.1	95 100.0
"I keep track of changes in sales volume."	48 49.5	35 36.1	8 8.2	6 6.1	97 100.0
"I document all phone inquiries following the promotion."	17 17.9	29 30.5	22 23.2	27 28.4	95 100.0
"I count the number of advertised items sold after an ad runs."	32 34.4	22 23.4	13 14.0	26 28.0	93 100.0
"I compare sales/profits with the same period last year."	48 50.5	22 23.2	12 12.6	13 13.7	95 100.0
"I ask employees opinions about the promotion."	32 33.7	34 35.8	15 15.6	14 14.7	95 100.0
"I count coupons or ads returned by customers."	34 38.6	21 23.9	5 5.7	28 31.8	88 100.0
"I record the number of times customers mention the promotion."	27 28.1	30 31.2	24 25.0	15 15.6	96 100.0

(Non-responses to these items and responses indicating that evaluations were never performed were eliminated from the calculations in this table.)

Promotion Activity in Small Firms

Decision-makers were asked about how frequently their firms engaged in paid advertising or promotion. Responses to this query are reported in Table 4-11.

Table 4-11. Frequency of Paid Advertising and Promotion in Small Firms

<u>Advertising/Promotion Frequency</u>	<u>N</u>	<u>% of Sample</u>
DAILY	15	10.4
WEEKLY	35	24.3
MONTHLY	31	21.5
ONLY ON A SEASONAL/HOLIDAY BASIS	22	15.3
SELDOM	24	16.7
NEVER	14	9.7
(No Response)	<u>3</u>	<u>2.1</u>
TOTAL	144	100.0

The respondents were also asked to examine a list of promotion opportunities and indicate the relative value of each opportunity given their present marketing situation. Responses to this item are reported in Table 4-12.

Table 4-12. Relative Value of Various Promotion Opportunities for Small Firms

RELATIVE VALUE*	1	2	3	4	
<u>Promotion Opportunity</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>TOTAL N**</u>
WORD-OF-MOUTH PROMOTION	2.1	2.1	6.3	88.9	143
DAILY NEWSPAPER ADS	29.9	29.9	27.1	10.4	140
WEEKLY OR COMMUNITY NEWSPAPER ADS	28.5	25.7	27.1	14.6	138
"SHOPPER" PAPER ADS (These papers carry coupons and ads only.)	47.9	22.2	18.1	6.3	135
SUNDAY NEWSPAPER SUPPLEMENTS	53.5	21.5	16.0	3.5	136
TV GUIDE ADS	64.6	16.7	6.9	6.9	137
YELLOW PAGES ADS	22.9	13.2	29.2	31.9	140
LOCAL MAGAZINE ADS	51.4	22.2	15.3	5.6	136
FLYERS/HANDBILLS/LEAFLETS	40.3	18.1	25.0	12.5	138
BILLBOARD ADS	52.8	19.4	18.1	5.6	138
DIRECT MAIL with COUPONS	41.7	18.8	18.1	14.6	134
DIRECT MAIL without COUPONS	38.2	20.1	18.8	18.1	137
RADIO STATION ADS	43.8	15.3	27.1	9.0	137
TV ADS (on over-the-air stations)	47.9	11.1	23.6	9.0	132
TV ADS (on Cable TV stations)	45.8	11.8	26.4	9.7	135
BROCHURES/BOOKLETS	32.6	22.2	23.6	16.0	136
NEWSLETTERS/BULLETINS	34.0	18.8	33.3	9.0	137
WINDOW POSTERS	33.3	10.4	31.3	21.5	139
SIGNS OUTSIDE OF ESTABLISHMENT	24.3	11.1	29.2	32.6	140
IN-STORE DISPLAYS	20.8	8.3	27.1	36.1	133
PREMIUMS/GIFTS	40.3	23.6	22.2	7.6	135
PERSONAL SALES PITCHES	10.4	14.6	31.3	41.7	141

*Where:

- 1 = NOT AT ALL VALUABLE
- 2 = NOT VERY VALUABLE
- 3 = SOMEWHAT VALUABLE
- 4 = VERY VALUABLE

**N=total responses; non-responses were excluded from this table.

Factors which Influence Promotion Decisions

Respondents were asked to indicate the relative importance of factors believed to influence advertising and promotion decisions in four major categories: budget; media selection; message theme selection; and production strategy. The results for these items are reported in Tables 4-13 through 4-16.

Table 4-13. Relative Importance of Influences on the Budget Decision in Small Firms

Factor	IMPORTANCE*	1	2	3	4	NR	TOTAL
		N/%	N/%	N/%	N/%	N/%	
Characteristics of current customers.		10 6.9	14 9.7	63 43.8	49 34.0	8 5.6	144 100.0
Characteristics of potential customers.		6 4.2	5 3.5	57 39.6	69 47.9	7 4.9	144 100.0
Competitor's spending on promotions.		49 34.0	49 34.0	32 22.2	9 6.3	5 3.5	144 100.0
Whether I can afford the promotion.		1 .7	6 4.2	37 25.7	98 68.1	2 1.4	144 100.0
Whether the promotion strategy projects a positive image of my firm.		2 1.4	3 2.1	27 18.8	110 76.4	2 1.4	144 100.0
Seasonal/holiday sales periods.		31 21.5	18 12.5	48 33.3	43 29.9	4 2.8	144 100.0
Co-op advertising opportunities.		40 27.8	22 15.3	41 28.5	34 23.6	7 4.9	144 100.0

*Where:

1 = Not important

2 = Somewhat unimportant

3 = Somewhat important

4 = Very important

NR = No response to this item.

Table 4-14. Relative Importance of Influences on the Media Selection Decision in Small Firms

<u>Factor</u>	IMPORTANCE*	1	2	3	4	NR	<u>TOTAL</u>
		<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	
Characteristics of current customers.		3 2.1	14 9.7	43 29.9	75 52.1	9 6.3	144 100.0
Characteristics of potential customers.		2 1.4	8 5.6	40 27.8	87 60.4	7 4.9	144 100.0
Competitor's promotion strategies.		43 29.9	34 23.6	47 32.6	12 8.3	8 5.6	144 100.0
Whether I can afford the medium/channel.		8 5.6	16 11.1	34 23.6	78 54.2	8 5.6	144 100.0
Whether the medium/channel projects a positive image of my firm.		7 4.9	5 3.5	32 22.2	90 62.5	10 6.9	144 100.0
The size of my promotion budget.		1 .7	9 6.3	37 25.7	90 62.5	7 4.9	144 100.0
Co-op advertising opportunities.		39 27.1	22 15.3	40 27.8	34 23.6	9 6.3	144 100.0

*Where:

1 = Not important

2 = Somewhat unimportant

3 = Somewhat important

4 = Very important

NR = No response to this item

Table 4-15. Relative Importance of Influences on
Message Theme Selection in Small Firms

<u>Factor</u>	IMPORTANCE*	1	2	3	4	NR	<u>TOTAL</u>
		<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	
Characteristics of current customers.		3 2.1	5 3.5	38 26.4	78 54.2	20 13.9	144 100.0
Characteristics of potential customers.		2 1.4	3 2.1	30 20.8	89 61.8	20 13.9	144 100.0
Competitor's promotion strategies.		31 21.5	32 22.2	43 29.9	18 12.5	20 13.9	144 100.0
Whether the message projects a positive image of my firm.		3 2.1	1 .7	21 14.6	97 67.4	22 15.3	144 100.0
Seasonal/holiday sales periods.		27 18.8	13 9.0	38 26.4	46 31.9	20 13.9	144 100.0
The size of the promotion budget.		9 6.3	5 3.5	37 25.7	74 51.4	19 13.2	144 100.0
Co-op advertising opportunities.		37 25.7	20 13.9	36 25.0	28 19.4	23 16.0	144 100.0

*Where:

1 = Not important

2 = Somewhat unimportant

3 = Somewhat important

4 = Very important

NR = No response to this item

Table 4-16. Relative Importance of Production Strategy
Methods in Small Firms

<u>Method</u>	IMPORTANCE*	1	2	3	4	NA	NR	
		<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	<u>N/%</u>	<u>TOTAL</u>
Using the same ad(s) repeatedly, making changes only when necessary.		17 11.8	20 13.9	43 29.9	18 12.5	22 15.3	24 16.7	144 100.0
Appearing in my own ads, so I don't have to pay talent.		37 25.7	10 6.9	11 7.6	8 5.6	58 40.3	20 13.9	144 100.0
Using color in (print) ads.		26 18.1	19 13.2	28 19.4	14 9.7	36 25.0	21 14.6	144 100.0
Using pictures or photographs in ads.		15 10.4	13 9.0	34 23.6	37 25.7	25 17.4	20 13.9	144 100.0
Doing my own art- work (by hand).		40 27.8	19 13.2	20 13.9	7 4.9	38 26.4	20 13.9	144 100.0
Using clip art provided by an ad service.		28 19.4	18 12.5	30 20.8	17 11.8	32 22.2	19 13.2	144 100.0
Having material professionally typeset.		12 8.3	5 3.5	36 25.0	57 39.6	15 10.4	19 13.2	144 100.0
Using production services provided by the local media.		23 16.0	11 7.6	29 20.1	23 16.0	36 25.0	22 15.3	144 100.0
Hiring professional actors/announcers to appear in ads.		47 32.6	7 4.9	7 4.9	5 3.5	58 40.3	20 13.9	144 100.0
Hiring a professional studio to produce radio or TV commercials.		32 22.2	10 6.9	12 8.3	9 6.3	60 41.7	21 4.6	144 100.0

*Where:

1 = Not important

2 = Somewhat unimportant

3 = Somewhat important

4 = Very important

NA = Item not applicable to decision-maker's marketing situation

NR = No response to this item

Hypothesis Testing

H1a: There will be a direct relationship between the perceived importance of short-term (operational) planning and the perceived importance of maintaining written promotion plans in small firms.

Several statistical techniques were used in testing this hypothesis. Initially, the mean importance for the independent and dependent variables was calculated. On a 4-point scale, the mean value of the importance of the planning variable was 3.6; using the same scale, the mean value of the importance of maintaining written promotion plans was only 2.6. Crosstabulated cell counts and frequencies for the two variables, reported in Table 4-17, show how the responses were distributed over the sample. The data indicate that responses were skewed toward the "very important" response on the relative importance of planning. With respect to the perceived importance of maintaining written promotion plans, results were mixed - 54.8% of the sample believed it was "very" or "somewhat" important to maintain a written promotion plan for the firm, while 43.8% believed it was "somewhat unimportant" or "not important." / A Pearson's r correlation coefficient calculated between the two variables ($r = .30$) showed a positive, but moderate relationship. Simple linear regression analysis indicated a direct relationship between the variables ($\beta = .299$). Finally, the t -statistic from the regression analysis indicated that the results of the responses were statistically significant ($t = 3.70$;

significance = .000). Although the relationship between the variables was not very strong, the data nonetheless support Hypothesis 1a.

Table 4-17. Crosstabulated Results of the Relationship Between the Relative Importance of Planning and the Importance of Maintaining Written Promotion Plans in Small Firms

IMPORTANCE OF MAINTAINING WRITTEN PROMOTION PLANS					
IMPORTANCE OF OPERATIONAL PLANNING	<u>Not</u> <u>Import.</u>	<u>Somewhat</u> <u>Unimport.</u>	<u>Somewhat</u> <u>Import.</u>	<u>Very</u> <u>Import.</u>	Row Total
<u>Not</u> <u>Important</u>	2 1.4	0 0.0	0 0.0	0 0.0	2 1.4
<u>Somewhat</u> <u>Unimportant</u>	2 1.4	4 2.8	1 .7	1 .7	8 5.7
<u>Somewhat</u> <u>Important</u>	6 4.3	15 10.6	10 7.1	3 2.1	34 24.1
<u>Very</u> <u>Important</u>	14 9.9	19 13.5	37 26.2	27 19.1	97 68.8
Column Total	24 17.0	38 27.0	48 34.0	31 22.0	141 100.0

(Number of Missing Observations = 3)

H1b: There will be a direct relationship between the relative importance of setting specific objectives for promotions and the amount of time spent studying promotion information.

Techniques similar to those used with Hypothesis 1a were used in testing this hypothesis. The mean importance for the independent and dependent variables was calculated. On a 4-point scale, the mean value of the importance of setting promotion objectives was 3.3; for the sample, study time on promotion issues averaged 1.8, which fell just below the 1-2 hour per week range. Crosstabulated cell counts and frequencies for the two variables, reported in Table 4-18, show how the responses were distributed over the sample. The data indicate that responses were skewed toward the "somewhat" and "very important" responses on the relative importance of setting objectives. There was little variance in the study time variable, with nearly half the sample (48.6%) spending less than one hour per week studying promotion issues, and 28.5% spending between one and two hours. A Pearson's r correlation coefficient calculated between the two variables ($r = .36$) showed a positive, but moderate relationship. Simple linear regression analysis indicated a direct relationship between the variables ($\beta = .361$). Finally, the t -statistic from the regression analysis indicated that the results of the responses were statistically significant ($t = 4.59$; significance = .000). Despite the lack of variance associated with the study time variable, the data support Hypothesis 1b.

Table 4-18. Crosstabulated Results of the Relationship Between the Relative Importance of Setting Promotion Objectives and Time Spent Studying Promotion Issues in Small Firms

WEEKLY STUDY TIME DEVOTED TO PROMOTION ISSUES

IMPORTANCE OF SETTING PROMOTION OBJECTIVES	<u>< 1 Hr.</u>	<u>1-2 Hrs.</u>	<u>2-5 Hrs.</u>	<u>5-10 Hrs.</u>	<u>10+Hrs.</u>	Row Total
<u>Not</u> <u>Important</u>	8 5.6	0 0.0	0 0.0	0 0.0	0 0.0	8 5.6
<u>Somewhat</u> <u>Unimportant</u>	7 4.9	2 1.4	0 0.0	0 0.0	0 0.0	9 6.3
<u>Somewhat</u> <u>Important</u>	29 20.4	21 14.8	5 3.5	2 1.4	0 0.0	57 40.1
<u>Very</u> <u>Important</u>	25 17.6	17 12.0	16 11.3	7 4.9	3 2.1	68 47.9
Column Total	69 48.6	40 28.2	21 14.8	9 6.3	3 2.1	142 100.0

(Number of Missing Observations = 2)

H2a: Small business decision-makers prefer interpersonal sources of information when making promotional decisions, relative to institutional, written, or electronic sources.

In testing this hypothesis, sources of information used for promotion decisions by the sample were listed in rank order; these rankings appear in Table 4-19. The average number of information sources selected per decision maker was 5.4. Clustering these sources into four categories using the classifications (cited in Appendix II) described by Welsch and Young (1982) an average usage rate was calculated. T-tests were performed in order to determine whether the differences between the source category means were statistically significant. The data indicate that interpersonal sources of information were used significantly more by small business decision makers, followed by written sources and electronic or institutional sources, respectively. No significant difference on the use of electronic or institutional sources was observed. A report of the clustered responses is shown in Table 4-20. The data support Hypothesis 2a.

**Table 4-19. Usage of Sources of Information in Promotion
Decisions by Small Business Decision-Makers in Rank Order**

<u>Rank</u>	<u>Information Source</u>	<u>% of Sample Using*</u>	<u>Type of Information Source**</u>
1	Customers	66.0	Interpersonal
2	Media Salespeople	47.2	Interpersonal
3	Trade publications	46.5	Written
4	Newspapers	43.8	Written
5	Competitors	43.1	Interpersonal
6	Employees	41.1	Interpersonal
7	Yellow Pages	38.2	Written
8	Family members	34.0	Interpersonal
9	Personal friends	32.0	Interpersonal
10	Business Associations/Clubs	25.7	Interpersonal
11	Consumer magazines	19.4	Written
12	Radio programs	16.0	Electronic
13(t)	Catalogs	13.9	Written
13(t)	"How-To" Books	13.9	Written
15	TV programs	11.8	Electronic
16	SBDC (Small Business Devel. Ctr.)	11.1	Institutional
17(t)	Advertising agencies	10.4	Interpersonal
17(t)	SBA (Small Business Adminis.)	10.4	Institutional
19(t)	Business videotapes	9.7	Electronic
19(t)	Reference manuals	9.7	Written
21	Local Colleges	8.3	Institutional
22	Marketing Consultants	5.6	Interpersonal
23	State/Local Government	4.9	Institutional
24	Computer Database	4.2	Electronic
25	Management Consultants	1.4	Interpersonal

(t) indicates tied response.

*Total percentage exceeds 100% due to multiple responses.

**Types based on classifications indicated in Appendix II.

Table 4-20. Information Source Usage by Category

<u>Source Category</u>	<u>Mean % Using</u>	<u>T-Value</u>	<u>Significance of T</u>
Interpersonal	44.2	2.22	.028
Written	38.0	8.69	<.001
Electronic	15.0	-.82	.416
Institutional	12.5		

H2b: The number of information sources used for promotional decisions will increase in a curvilinear manner as the size and age of small firms increase; and as the promotion budget increases, respectively.

In testing this hypothesis, ANOVA was used to observe the differences in the average number of information sources used relative to firm size, age and promotion budget size range categories, respectively. Firm size was assessed as a function of annual revenues and number of employees. On the basis of firm size and the size of the promotion budget, no patterns or relationships (curvilinear, linear, or otherwise) with respect to the number of information sources used were observed. With respect to age of the firm, a trend was observed which suggested that the number of information sources used tends to decrease as the firm ages. An F-ratio calculation indicated that the differences between the means on the age variable were statistically significant. The statistical results of this finding are reported in Table 4-21. Because none of the data suggest a

curvilinear relationship between the variables, Hypothesis 2b is not supported.

Table 4-21. ANOVA Results on Age of Firm and Mean Number of Information Sources Used by Decision-Maker

	AGE OF FIRM				
	<u>< 1 Yr.</u>	<u>1-3 Yrs.</u>	<u>4-7 Yrs.</u>	<u>8-10 Yrs.</u>	<u>10+</u>
<u>Years</u>					
MEAN NUMBER OF INFORMATION SOURCES USED	9.11	6.20	5.79	4.58	4.99
F-ratio = 3.68; Significance of F = .007					

H2c: The time spent studying promotional information will increase in a curvilinear manner as the size and age of small firms increase; and as the promotion budget increases, respectively.

In testing this hypothesis, ANOVA was again used, this time to observe the differences in average study time devoted to promotion issues relative to firm size, age and promotion budget size range categories, respectively. Again, on the basis of firm size and the size of the promotion budget, no patterns or relationships with respect to the amount of time devoted to studying promotion issues was observed. With respect to age of the firm, a trend was observed which indicated that mean study time decreases as the firm ages. An F-ratio calculation indicated that the differences between the means for the firm age variable were statistically significant. The statistical results of this finding are reported in Table 4-22. As was the case with

Hypothesis 2b, because none of the data indicate a curvilinear relationship, Hypothesis 2c is not supported.

Table 4-22. ANOVA Results on Age of Firm and Mean Study Time Devoted to Promotion Issues

	AGE OF FIRM				
	<u>< 1 Yr.</u>	<u>1-3 Yrs.</u>	<u>4-7 Yrs.</u>	<u>8-10 Yrs.</u>	<u>10+</u>
<u>Yrs.</u>					
MEAN WEEKLY					
STUDY TIME					
RANGE	2.60	2.25	2.11	1.73	1.62
F-ratio = 3.67; Significance of F = .007					

H3a: Decision-makers who have experienced formal marketing education will use more information sources than those who have not had formal marketing education.

H3b: Decision-makers who have experienced formal marketing education will spend more time studying promotional information than those who have not had formal marketing education.

Comparisons of three marketing education groups were used to test these hypotheses. One group consisted of respondents (n = 21) who had taken classes at the Wayne State University Small Business Development Center (SBDC). The second group combined responses indicating some experience with other types of "formal" marketing education (SBA marketing seminars; marketing degree programs, college marketing courses, and non-SBA marketing seminars) into one variable. The rationale for creating the cumulative education variable was to develop a comparison based on a

larger sample (n = 51). The third group indicated experiencing "no formal marketing education" (n = 60). Table 4-23 indicates the various types of marketing education experienced by the sample. Half of the sample had engaged in at least one type of marketing education; just over 40 percent had no formal marketing education.

Table 4-23. Marketing Education Experience

<u>Type of Marketing Education</u>	<u>N</u>	<u>% of Sample</u>
No formal marketing education	60	41.7
Non-SBA Marketing Seminars	39	27.1
College marketing courses	29	20.1
SBDC Classes (at WSU Center)	21	14.6
SBA Marketing Seminars	15	10.4
College Marketing Degree	6	4.2
Other (not specified)	6	4.2

ANOVA was then used to compare the differences between the three groups on the basis of type of marketing education experienced. The comparison for Hypothesis 3a looked at the mean number of information sources used by the decision-maker. (Recall that the average number of information sources used per decision-maker for the entire sample was 5.4.) Looking at those who took classes at the Wayne State University SBDC, the mean number of information sources used was 7.65; the group experiencing all other types of formal marketing education used an average of 5.77 information sources; those respondents who had not experienced formal marketing education used an average of 4.53 information

sources. The analysis indicated that the decision makers experiencing formal marketing education tended to use a greater number of information sources, on average, for promotion decisions. Calculation of an F-ratio ($F = 6.14$) between the groups indicates that this difference is statistically significant (significance of $F = .003$). A paired comparison T-test, which looked only at the difference between the means for the formal marketing education group ($x = 5.77$) and the no formal marketing education group ($x = 4.53$) also showed a statistically significant difference in the number of information sources used ($t = 2.12$; significance = $.037$). Thus, the data support Hypothesis 3a.

In testing Hypothesis 3b, a similar analysis using the ANOVA technique was used. This comparison was based on the mean time spent studying promotion issues on a weekly basis. Looking at the Wayne State SBDC group, the average time spent studying promotion issues fell into the 1-2 hour range (mean = 2.67); study time for the cumulative formal education group fell into the less than one hour range (mean = 1.67); study time for those who had not had formal marketing education also fell into the less than one hour range (mean = 1.73). Calculation of an F-ratio ($F = 8.35$) indicates that the differences between the three groups is statistically significant (significance of $F = .000$). However, a paired comparison t-test ($t = -.38$) indicates no

significant difference between means for the latter two groups. Thus, Hypothesis 3b is supported only for the group having engaged in marketing education at the Wayne State Small Business Development Center; for the other formal marketing education and the no marketing education groups, Hypothesis 3b is not supported.

H3c: Decision methods used by decision-makers who have experienced formal marketing education will be more objective than those who have not had formal marketing education.

Prior to testing this hypothesis, various types of decision methods used to assess future promotion opportunities and evaluation methods used to assess past promotion activity for the sample were ranked on the basis of a mean usage score. Each decision and evaluation method had been classified by independent judges (professors, marketing students, and small business owners) and labeled according to the appropriate theoretical categories. (Reliabilities of the judges classifications for these key survey items are reported in Appendix VI. Instructions provided to the judges for purposes of classification are included in Appendix VII). Rankings of decision methods used to assess future promotion opportunities are reported in Table 4-24; rankings of evaluation methods used to assess past promotion activity are reported in Table 4-25.

A series of paired comparison t-tests of the mean scores for the ranked promotion opportunity decision methods

were conducted in order to assess the stability of the rankings; the t-test results are also reported in Table 4-24. Results of the differences between means indicated no statistically significant difference between "past experience" and "intuition," ($t = 1.31$; significance = .193). Thus, these methods, which fall into the Bounded Rationality and Social Model decision categories, respectively, were equally as likely to be used as the primary decision methods in assessing future promotion opportunities. For all but two other comparisons, the differences between the means were statistically significant. For those two exceptions, where the mean differences were not statistically significant, the lack of variation was between two Bounded Rationality methods (examining competitor's efforts and getting advice from business contacts) and two Classical Rational methods (using decision trees and computer simulations).

Similarly, a series of paired comparison t-tests of the mean differences for the ranked promotion evaluation methods were conducted in order to assess the stability of those rankings; the t-test results are included in Table 4-25. (A zero value was included in the evaluation method calculations, indicating those who stated they "never" evaluated past promotion strategies.) The results of the differences between means indicated no statistically significant differences between the first three items ranked

(tracking sales volume, listening to customers and noting changes in customer traffic). Thus, these items, which are associated with objective, subjective and moderate decision methods, respectively, are each about as likely as the other to be used as the primary evaluation method by decision makers. The results of the paired comparison t-tests indicate the same phenomenon when other evaluation methods are compared. There are two plausible explanations for this observation. First, examination of the mean usage scores suggests that the none of the evaluation methods are used with great frequency. Second, 18.8% of the sample said they "never" evaluated promotion activities; and between 14-20% of the sample did not respond to each item associated with this question (see Table 4-10). Thus, the number of zero responses reduced the mean substantially and non-responses resulted in a much smaller sample size.

Table 4-24. Decision Methods Used by Small Firm Decision Makers to Assess Promotion Opportunities

<u>Rank</u>	<u>Promotion Decision Method</u>	<u>Decision Orientation Theoretical Category</u>	<u>Sample Mean*</u>	<u>T-Val./Sig.T</u>
1	Past Experience	Bounded Rationality	3.30	
2	Intuition	Social Model	3.22	1.31 .193
3	Examine Competitor's Efforts	Bounded Rationality	2.73	5.30 <.001
4	Advice from Business Contacts	Bounded Rationality	2.65	.51 .611
5	Suggestions from Family/Friends	Social Model	2.18	-5.20 <.001
6	Guesswork	Social Model	1.99	2.45 .016
7	Statistical Methods	Classical Rational	1.46	-5.83 <.001
8	Decision Trees	Classical Rational	1.28	2.74 .007
9	Computer Simulations	Classical Rational	1.26	-.11 .914

On a scale of 1-4, where:

- 1 = Method never used.
- 2 = Method seldom used
- 3 = Method frequently used
- 4 = Method always used

Table 4-25. Methods Used by Small Business Decision Makers
to Evaluate Past Promotion Activities

<u>Rank</u>	<u>Promotion Evaluation Method</u>	<u>Objectivity of Evaluation Method</u>	<u>Sample Mean*</u>	<u>T-Val./Sig.</u>	
1	Track Changes in Sales Volume	Objective	2.57		
2	Listen to Customers Talk about Promotion	Subjective	2.54	.35	.724
3	Note Changes in Customer Traffic	Moderate	2.45	-1.65	.101
4	Compare Sales/Profits w/ same Period Last Year	Objective	2.42	1.08	.283
5	Ask Employees Opinions about the Promotion	Subjective	2.25	.48	.631
6	Record Number of Times Customers Mention Ad	Moderate	2.12	1.62	.109
7	Count Coupons/ Ads Redeemed	Objective	2.06	.32	.752
8	Measure sales of Advertised Items	Objective	2.05	-1.05	.295
9	Document Phone Inquiries Following Promotion	Moderate	1.85	-1.42	.158

* On a scale of 0 - 4, where:

- 0 = Decision maker never evaluates promotion activity
- 1 = Method never used
- 2 = Method seldom used
- 3 = Method frequently used
- 4 = Method always used

For the sample as a whole, pooled means for the three decision orientation categories - Classical Rational, Bounded Rationality and Social Model theory - were computed. Decision makers had indicated how frequently these methods were used to consider future promotion strategies. On a 4-point usage scale, methods associated with Bounded Rationality theory averaged 2.89; methods associated with Social Model Theory averaged 2.47; and methods associated with Classical Rational theory averaged 1.33. T-tests indicated that the differences between the Bounded Rationality and Social Model means were statistically significant ($t = -30.07$; significance = .000); differences between the Social Model and Classical Rational means were also statistically significant ($t = -20.12$; significance = .000). This analysis indicated that decision methods associated with Bounded Rationality theory dominated the decision-making style in small firms; Classical Rational Decision methods were seldom or never used by any small firm decision makers.

A similar analysis was performed on the methods that decision makers used to evaluate past promotion strategies. Twenty-seven respondents (18.8% of sample) said they never evaluated promotion strategies. For the entire sample, pooled means for the relatively objectivity of evaluation method - objective, moderate, or subjective - were computed. On a 4-point scale, subjective methods of evaluation

averaged 2.36; objective evaluation methods averaged 2.21 and moderate evaluation methods averaged 2.13. T-tests on the evaluation methods indicated that the differences between the subjective and objective means were statistically significant ($t = -3.09$; significance = .003); differences between the objective and moderate means were also statistically significant ($t = 1.98$; significance = .050). This analysis indicated that decision makers use subjective techniques (listening to customers and/or employees discuss the promotions) when evaluating past promotion strategies.

Finally, ANOVA was used to determine the differences in decision orientations on the basis of type of marketing education experienced. The three marketing education groups compared in Hypotheses 3a and 3b were used. Group means and significance of the ANOVA analysis are summarized in Table 4-26.

Table 4-26. ANOVA Results on Decision Orientations
by Marketing Education Experience

<u>Decision Orientation</u>	<u>Group Education Type & Comparison</u>	<u>Group Mean</u>	<u>F- Value</u>
Classical Rational	WSU SBDC	1.62	8.42*
	Other Formal Mkt. Educ.	1.38	
	No Formal Mkt. Educ.	1.19	
Bounded Rationality	WSU SBDC	3.00	3.70*
	Other Formal Mkt. Educ.	3.00	
	No Formal Mkt. Educ.	2.75	
Social Model	WSU SBDC	2.50	.213
	Other Formal Mkt. Educ.	2.43	
	No Formal Mkt. Educ.	2.45	

*Significant at the .05 level.

In terms of considering future promotions, those who had experienced formal marketing education used with significantly greater frequency decision methods associated with Bounded Rationality theory than those with no formal marketing education. However, regardless of marketing education, decision methods associated with Bounded Rationality theory were used more frequently than methods associated with either Social Model or Classical Rational decision theory. Decision makers experiencing formal marketing education were also significantly more likely to use decision techniques associated with Classical Rational theory; however, these methods (statistical techniques, decision trees, computer simulations) were not used with high frequency by any of the small business decision makers. The groups were equally likely to use decision methods

associated with Social Model theory (intuition, guesswork).

ANOVA was also used to assess the objectivity of methods decision makers used to evaluate past promotion strategies on the basis of marketing education experienced. Using the same three marketing education groups, means and significance of the ANOVA analysis are summarized in Table 4-27.

Table 4-27. ANOVA Results on Evaluation Methods by Marketing Education Experience

<u>Evaluation Method Category</u>	<u>Education Type & Group Comparison</u>	<u>Group Mean</u>	<u>F-Value</u>
Objective	WSU SBDC	2.29	1.39
	Other Formal Mkt. Educ.	2.44	
	No Formal Mkt. Educ.	1.94	
Moderate	WSU SBDC	2.80	4.69*
	Other Formal Mkt. Educ.	2.32	
	No Formal Mkt. Educ.	1.75	
Subjective	WSU SBDC	2.87	2.29
	Other Formal Mkt. Educ.	2.47	
	No Formal Mkt. Educ.	2.05	

*Significant at the .05 level.

Only one statistically significant difference between groups was observed. Decision-makers who had experienced formal marketing education were more likely to use evaluation methods classified as moderately objective than those lacking formal marketing education. (These methods included noting changes in customer traffic and recording the number of times customers mention ads.) No significant

differences between groups were observed on the use of objective or subjective evaluation methods.

The data suggest that decision-makers with formal marketing education are apt to use any evaluation method - objective, moderate or subjective - more frequently than those without formal marketing education. The ANOVA analysis, in particular, suggests that the "zero" responses to the evaluation methods items came largely from the respondents without formal marketing education. However, because significant differences between groups on the objective and subjective evaluation variables were not found, it is not apparent that decision-makers with formal marketing education are necessarily more objective in their evaluation techniques than those without formal marketing education.

In sum, the data offer partial support for Hypothesis 3c. In terms of assessing future promotion activities, decision-makers who have experienced formal marketing education tend to use decision methods that are more objective than those lacking formal marketing education. However, in assessing past promotion activities, the data do not indicate that those having experienced formal marketing education have a greater tendency to use evaluation techniques classified as more objective. This portion of the data does not support Hypothesis 3c.

H4a: Perceived affordability is the primary variable influencing the promotion budget decision in small firms, regardless of firm type, operating environment, location, or degree of competition.

To evaluate this hypothesis, the mean scores of scaled responses to seven variables believed to influence the budget decision in small firms were computed and ranked for the sample. Using a 4-point scale, these mean scores indicate the relative importance of the variable to the decision-makers. T-tests were performed to determine whether the differences between the means of the variables were statistically significant. These results are reported in Table 4-28. The findings indicate that whether the promotion method projected a positive image of the firm and whether the method was affordable were equally important as the primary influences of the budget decision.

Table 4-28. Relative Importance of Selected Variables
in Influencing the Promotion Budget

<u>Rank</u>	<u>Variable</u>	<u>Mean Score</u>	<u>T-value/Sig. T</u>
1	Positive image of firm projected	3.73	
2	Whether method was affordable	3.63	-1.73 .085
3	Characteristics of potential customers	3.38	-3.30 <.001
4	Characteristics of current customers	3.11	-5.27 <.001
			3.40 <.001
5	Seasonal/holiday periods	2.73	
6	Co-op advertising opportunities	2.50	1.72 .087
7	Competitor's spending on promotions	2.00	-3.86 <.001

Mean Score where:

- 1= "not important"
- 2= "somewhat unimportant"
- 3= "somewhat important"
- 4= "very important"

ANOVA was then used to compare the differences in mean importance between groups on the basis of firm type (retail or service), operating environment (commercial zone or private home), location (city, suburb or rural area) and degree of perceived competition (low, moderate or high). Only three statistically significant differences in the relative importance of factors influencing the promotion budget emerged from this analysis. On the basis of firm type, service firms placed more importance on characteristics of current customers than retail firms ($F\text{-ratio} = 5.50$); retail firms regarded seasonal and holiday periods as more important than service firms ($F\text{-ratio} = 12.51$). On the basis of operating environment, home-based firms placed more importance on current customers than did firms located in commercial zones ($F\text{-ratio} = 4.05$). On the basis of all other factors including firm location (city, suburb and rural area) and degree of perceived competition (low, moderate or high) in the marketplace, no significant differences from the original rankings were found. Because differences in influences on the budget decision were observed on the basis of firm type and business environment, rankings for these categories are reported in Tables 4-29 and 4-30.

In sum, since affordability, along with positive image of the firm, were the dominant influences of the budget decision across all conditions, Hypothesis 4a is supported.

Table 4-29. Mean Differences in Relative Importance of
Budget Influences in Retail and Service Firms

RETAIL FIRMS			SERVICE FIRMS		
<u>Rank</u>	<u>Variable</u>	<u>Mean Importance</u>	<u>Variable</u>	<u>Mean Importance</u>	
1	Positive Image	3.70	Positive Image	3.76	
1	Affordability	3.62	Affordability	3.69	
3	Potential Customers	3.27	Potential Customers	3.48	
4	Seasons/holidays	3.00	Current Customers	3.30	
5	Current Customers	2.93	Co-op Opportunities	2.35	
6	Co-op Opportunities	2.62	Seasons/holidays	2.31	
7	Competitor's Spending	2.00	Competitor's Spending	2.04	

Table 4-30. Mean Differences in Relative Importance of
Budget Influences in Firms Operated in Commercial Areas
and Firms Based in Private Homes

COMMERCIAL ZONE			HOME-BASED		
<u>Rank</u>	<u>Variable</u>	<u>Mean Importance</u>	<u>Variable</u>	<u>Mean Importance</u>	
1	Positive Image	3.68	Positive Image	3.81	
2	Affordability	3.58	Affordability	3.75	
3	Potential Customers	3.31	Potential Customers	3.55	
4	Current Customers	3.00	Current Customers	3.32	
5	Seasonality	2.82	Seasonality	2.49	
6	Co-op Opportunities	2.60	Co-op Opportunities	2.28	
7	Competitor's Spending	2.11	Competitor's Spending	1.84	

Note: Relative Importance is based on a 4-point scale, where:

- 1 = Not Important
- 2 = Somewhat Unimportant
- 3 = Somewhat Important
- 4 = Very Important

H4b: Promotion budgets for firms perceived to be in intensely competitive marketing situations will be larger than those in competitive situations perceived as low and moderate.

Promotion expenditures and perceived degree of competition for the sample were calculated. This information is reported in Tables 4-31 and 4-32. In terms of annual expenditures on advertising and sales promotions, over 95% of the sample spent some amount on promotion activity; the largest percentage (24.3%) spent between \$1000 and \$2500 on promotions during the year. The largest proportion of respondents, 46%, believed their firm was in a highly competitive marketing situation.

Table 4-31. Promotion Expenditure Levels

<u>Promotion Expenditures</u>	<u>N</u>	<u>% of Sample</u>
Zero	6	4.2
\$1 - 500	27	18.8
\$501 - 1000	16	11.1
\$1001 - 2500	35	24.3
\$2501 - 5000	22	15.3
\$5001 - 10,000	17	11.8
\$10,001 - 25,000	11	7.6
\$25,001 - 50,000	7	4.9
\$50,001 - 100,000	2	1.4
(No Response)	<u>1</u>	<u>.7</u>
TOTAL	144	100.0

Table 4-32. Degree of Perceived Competition

<u>Degree of Competition</u>	<u>N</u>	<u>% of Sample</u>
Low	21	14.6
Moderate	55	38.2
High	67	46.5
(No response)	<u>1</u>	<u>.7</u>
TOTAL	144	100.0

ANOVA was used to test Hypothesis 4b. Promotion expenditure categories were compared on the basis of the decision maker's determination that the firm was in a low, moderate or highly competitive marketing situation. For firms believed to be in a state of low competition, the group mean expenditure level was 3.52 (in the \$500 - \$1000 range); for the moderate competition group, the mean expenditure level was 4.17 (in the \$1000 - \$2500 range); for the high competition group, the mean expenditure level was 4.45 (also in the \$1000 - \$2500 range). An F-ratio test ($F = 2.07$) of the variance between the groups based on degree of competition indicated no statistically significant differences between groups. A Pearson's r correlation coefficient calculated between the level of promotion spending and perceived degree of competition in the market revealed a positive, but very weak relationship ($r = .16$). Thus, Hypothesis 4b is not supported. Consistent with one of the findings from data analyzed for Hypothesis 4a, which showed that competitor's spending on promotions was the factor least likely to influence the promotion budget, small

business decision makers appear not to emphasize the competitive situation when determining how much to spend on advertising and promotions.

H4c: After perceived affordability, co-op advertising opportunity is the primary variable influencing the budget decision in small retail firms.

The data analyzed with respect to Hypothesis 4a (Table 4-28) indicated that image of the firm, along with perceived affordability, were the primary variables influencing the budget decision in small retail firms. The same data also show that co-op advertising opportunities for retail firms rank sixth on a list of seven variables believed to influence budget decisions and average only a 2.62 on a 4-point scale indicating degree of importance. Therefore, the data indicate that co-op advertising opportunities do not have a dominant influence on the budget decision in small retail firms. Hypothesis 4c is not supported.

H4d: Seasonality is viewed as more important by small retail firms than service firms in influencing the budget decision.

The ANOVA data analyzed in association with Hypothesis 4a (Table 4-29) indicated that seasonal and holiday periods had a greater influence on the promotion budget decision in small retail firms ($x = 3.00$) compared with small service firms ($x = 2.31$). This comparison produced a statistically

significant result (F -ratio = 12.51) at the .05 alpha level. Thus, Hypothesis 4d is supported by the data.

H5a: Promotion budget size, target audience characteristics, and competitive efforts are the key influences of promotion media selection decisions by small business decision-makers, regardless of firm type.

To test this hypothesis, relative influences on media channel selection were ranked on the basis of mean importance scores. Mean scores for the entire sample were computed; the influences on media selection for the sample are reported in Table 4-33. This analysis indicated that promotion budget size, potential customers and whether the medium projects a positive image of the firm were the primary influences on media selection; competitor's promotion activities, however, had little bearing on media selection. Paired comparison t -tests of differences between the ranked means indicated no significant differences between size of the promotion budget, characteristics of potential customers and positive image of the firm; thus, these three variables are equally as likely to be the primary influence on the media selection decision; competitor's promotion activities were significantly unlikely to influence the media selection decision.

ANOVA was then used to examine differences between sample groups on the basis of firm type (retail or service); operating environment (commercial zone or private home); and location (city, suburb, or rural area). Interestingly, the

ANOVA analysis revealed no statistically significant differences between groups with regard to factors which influence media channel selection. Hypothesis 5a is partially supported, with respect to the promotion budget and target audience influences on media selection, along with image of the firm; however, the data do not indicate that competitor's efforts have an important impact on media choices.

Table 4-33. Relative Influences on Media Channel Selection in Small Firms

<u>Rank</u>	<u>Variable</u>	<u>Mean*</u> <u>Importance</u>	<u>T-Val./Sig. T</u>	
1	Size of the Promotion Budget	3.58		
2	Characteristics of Potential Customers	3.55	-.80	.427
3	Medium Projects a Positive Image of Firm	3.53	-.24	.812
4	Characteristics of Current Customers	3.41	-2.04	.044
5	Whether Medium is Affordable	3.34	.43	.669
6	Co-op Advertising Requirements	2.51	6.15	<.001
7	Competitor's Promotion Activity	2.21	-2.62	.010

*On a 4-point scale, where:

- 1 = not important
- 2 = somewhat unimportant
- 3 = somewhat important
- 4 = very important

H5b: Small business entrepreneurs, in general, place a higher value on mass media advertising than on non-mass media sales promotion channels.

In evaluating this hypothesis, scaled responses indicating the relative value of twenty-three mass media advertising and sales promotion channel options were ranked according to their means. These rankings are indicated in Table 4-34. Then, the mass media advertising and various sales promotion channels were grouped into two categories. A summary mean score was calculated for the 13 mass media advertising (indicated by the letter A) and 10 non-mass media sales promotion (indicated by the letter P) channels. The mean score for the mass media advertising channels was 2.35; the mean for the non-media sales promotion channels was 2.93. A T-test of the differences between these two means indicates that the differences are statistically significant ($t = 8.31$; significance = .000). The data indicate that small business decision-makers place a higher value on non-media sales promotion channels compared with mass media advertising channels. Thus, Hypothesis 5b is not supported.

Table 4-34. Relative Value of Various Promotional Media Channels in Small Firms

<u>Rank</u>	<u>Description</u>	<u>Mean Value*</u>
1	Word of Mouth Promotion (P)	3.83
2	Personal Selling (P)	3.45
3	Business Cards (P)	3.06
4	In-store Displays (P)	2.85
5(t)	Establishment Signage (Exterior) (P)	2.72
5(t)	Yellow Pages Display Advertising (A)	2.72
7	Window Posters (P)	2.42
8	Weekly/Community Newspaper Advertising (A)	2.29
9	Brochures/Booklets (P)	2.24
10	Daily Newspaper Display Advertising (A)	2.19
11(t)	Direct Mail (without Coupons) (A)	2.18
11(t)	Newsletters/Bulletins (P)	2.18
13	Flyers/Leaflets/Handbills (P)	2.10
14	Direct Mail Advertising (with Coupons) (A)	2.06
15	Radio Advertising (A)	2.01
16	Cable Television Advertising (A)	2.00
17	Premiums/Gifts (P)	1.97
18	Local (Over-the-air) TV Advertising (A)	1.93
19	Shopper" Newspaper Advertising (These papers carry no editorial material) (A)	1.82
20	Billboard Advertising (A)	1.75
21	Local Magazine Display Advertising (A)	1.74
22	Weekend Newspaper Magazines/Supplements (A)	1.68
23	TV Guide Advertising (A)	1.54

 *On 4-point scale, where:

- 1 = Not at all valuable
- 2 = Not very valuable
- 3 = Somewhat valuable
- 4 = Very valuable

(A) indicates mass media advertising channel

(P) indicates non-media sales promotion channel

(t) = tied response

ANOVA was used to determine differences in the relative value of promotion options on the basis of business type and operating environment. In terms of business type (retail or service), four statistically significant differences were observed. Retail firms placed significantly more value on display ads in weekly and community newspapers and on in-store displays than service firms; service firms placed significantly more value on promotional brochures and booklets and local magazine ads than retail firms. In terms of operating environment, firms in commercial zones placed significantly more value on direct mail with coupons and on in-store displays than firms based in private homes. No other statistically significant differences between groups was observed. The significant statistical findings are summarized in Tables 4-35 and 4-36.

Table 4-35. Statistically Significant Differences by Firm Type on the Value of Promotion Channels

<u>Promotion Channel</u>	<u>Mean Value</u>		<u>F-Value*</u>
FIRM TYPE:	RETAIL	SERVICE	
Weekly/Community Newsp. Ads	2.46	2.08	4.27
In-store Displays	3.32	2.10	41.67
Brochures/Booklets	2.01	2.71	12.99
Local Magazine Ads	1.59	1.96	4.80

Table 4-36. Statistically Significant Differences by Firm Environment on the Value of Promotion Channels

<u>Promotion Channel</u>	<u>Mean Value</u>		<u>F-Value*</u>
	FIRM ENVIRONMENT:	COMMERCIAL	HOME-BASED
Direct Mail (w/ Coupons)		2.34	1.78
In-Store Displays		3.06	2.34
			4.82
			5.61

 *Significant at the .05 level.

H5c: Small firms, in general, place a higher value on paid promotion than on word-of-mouth promotion.

H5d: Word-of-mouth promotion is perceived as a more valuable promotion channel among service firms than among retail firms.

The data which appear in Table 4-34 were also used to evaluate Hypothesis 5c. Word-of-mouth promotion received the greatest mean score ($\bar{x} = 3.83$) among the other 22 paid promotion options, followed by personal selling ($\bar{x} = 3.45$). A T-test of the differences between the two means indicated a statistically significant difference ($t = 3.23$; significance = .002). Thus, the data show that free word-of-mouth promotion is regarded as the most valuable type of promotion channel in small firms compared with other types of paid promotion methods. Thus, the data do not support Hypothesis 5c.

The ANOVA data calculated for Hypothesis 5b was used to evaluate the hypothesized relationship stated in Hypothesis 5d on the basis of firm type. In determining whether the value of word-of-mouth promotion differed between retail and service firms, the analysis indicated no statistically

significant differences between means for retailers ($x = 3.80$) and service firms ($x = 3.87$). The F-ratio reported was .44; the significance of F was .50. Thus, Hypothesis 5d is not supported.

H6: Small firm decision-makers are primarily influenced by the relative importance of perceived image quality, target audience characteristics, and competitive efforts, respectively, when choosing creative themes for promotions.

To test this hypothesis, relative influences on message theme selection were ranked on the basis of mean importance scores. Mean scores for the entire sample were first computed; then ANOVA was used to examine differences between groups on the basis of firm type (retail or service); operating environment (commercial zone or private home); and location (city, suburb, or rural area). The ranked influences on message theme selection for the sample are reported in Table 4-37. For the sample as a whole, the mean values indicated that positive image projected by the message and characteristics of potential customers were the key influences in determining promotion messages. T-tests indicated that the differences between the means for the positive image and potential customers variables were not statistically significant ($t = -1.14$; significance = .259), indicating that the variables were equally likely to be the primary influence on determination of the promotion message. However, competitor's efforts, along with co-op advertising requirements, had relatively little bearing on determination

of promotion messages; these two factors were just as likely to have the least influence on promotion messages.

Table 4-37. Relative Importance of Selected Variables in Influencing Message Theme Selection

<u>Rank</u>	<u>Variable</u>	<u>Mean Importance*</u>	<u>T-value/Sig. T</u>
1	Message Projects Positive Image of Firm	3.74	-1.14 .259
2	Characteristics of Potential Customers	3.66	-2.31 .022
3	Characteristics of Current Customers	3.54	1.51 .135
4	Size of Promotion Budget	3.41	-4.69 <.001
5	Seasonal/Holiday Periods	2.83	2.94 .004
6	Co-op Advertising Requirements	2.45	-.33 .739
7	Competitor's Promotions	2.39	

The ANOVA analysis revealed only one statistically significant difference between groups with regard to factors which influence message theme selection; with respect to business type, retail firms placed more emphasis on seasonal/holiday sales periods than service firms in determining message themes for promotions (F-ratio = 9.82; significance = .002). The differences are detailed in Table 4-38. In sum, Hypothesis 6 is supported on the image and target audience variables; it is not supported on the competitive efforts variable.

Table 4-38. ANOVA Differences in Relative Importance of Message Theme Selection Influences in Retail and Service Firms

RETAIL FIRMS			SERVICE FIRMS		
<u>Rank</u>	<u>Variable</u>	<u>Mean Importance</u>	<u>Variable</u>	<u>Mean Importance</u>	
1	Positive Image of Firm	3.76	Potential Customers	3.76	
2	Potential Customers	3.58	Positive Image Firm	3.69	
3	Current Customers	3.43	Current Customers	3.67	
4	Size of Promotion Budget	3.43	Size of Promotion Budget	3.31	
5	Seasonal/Holiday Periods	3.06	Co-op Advertising Requirements	2.45	
6	Co-op Advertising	2.49	Competitor's Promotions	2.45	
7	Competitor's Promotions	2.36	Seasonal/Holiday Periods	2.38	

*Mean Importance= Average of all scores on a 4-point scale,
where:

- 1 = "Not Important"
- 2 = "Somewhat Unimportant"
- 3 = "Somewhat Important"
- 4 = "Very Important"

H7a: Small business entrepreneurs believe low cost advertising methods project a poor image of the firm.

In assessing this hypothesis, responses to three attitude statements about the relationship between the cost of advertising methods and image projected by the advertising were analyzed. Using a 4-point scale, respondents indicated to what degree they agreed with each statement. The attitude statements, sample mean responses and frequency the of scaled agree/disagree responses are detailed in Table 4-39.

Table 4-39. Attitudes Toward Advertising Methods and Firm Image by Small Firm Decision Makers

<u>Statement</u>	<u>Sample Mean*</u>	<u>%Strongly Agree</u>	<u>%Agree Somewhat</u>	<u>%Disagree Somewhat</u>	<u>%Strongly Disagree</u>
"I must keep costs at a minimum when promoting my firm"	2.80	21.5	43.1	27.1	6.9
"Most low budget advertising looks cheap and tacky."	2.59	18.8	29.2	39.6	9.7
"Most low cost ads tend to project a positive image of the firm."	2.21	5.6	26.4	44.4	18.1

 *On a 4-point scale, where:

- 1 = "Strongly Disagree"
- 2 = "Disagree Somewhat"
- 3 = "Agree Somewhat"
- 4 = "Strongly Agree"

With respect to the cost minimizing statement, the mean ($\bar{x} = 2.80$) indicated that the sample tended to agree somewhat that advertising costs must be kept at a minimum; nearly 2/3 of the sample strongly or somewhat agreed with this statement.

Responses to whether low cost advertising looks "cheap and tacky" were mixed. The sample mean ($\bar{x} = 2.59$) fell into a neutral zone on the agreement scale; 48% of the sample somewhat or strongly agreed that low cost ads look bad, while 49.3% somewhat or strongly disagreed that low cost ads look bad. The sample appeared to disagree ($\bar{x} = 2.21$) that low cost advertising projects a positive image of the firm; less than 1/3 of the sample somewhat or strongly agreed that low cost advertising projects a positive firm image. Because the mean for this statement was numerically close to the neutral zone on the agreement scale, a t-test was performed which compared the given mean of 2.21 with a theoretical mean of 2.50 for this attitude statement. (The null hypothesis assumed that 2.21 was no different from the theoretical 2.50.) The calculated t-value ($t = 2.61$) indicated that the difference between the actual and the theoretical mean was statistically different. The null hypothesis was therefore rejected. This data suggests that small business decision-makers believe that low cost advertising does not project a positive image of the firm.

Further investigation, using the ANOVA technique, was used to determine whether any attitudinal differences between groups existed on the basis of firm type, operating environment or location; no statistically significant differences between these groups were found.

In sum, Hypothesis 7a is partially supported. While the response to one statement on the image projected by low cost advertising was inconclusive, responses to another statement suggest that small business decision-makers believe low cost advertising methods do not enhance the image of the firm.

H7b: Small business entrepreneurs regard cost minimizing production strategies as more important to their marketing efforts than more expensive production methods (generally associated with enhancing quality).

Similar to previous analyses, relative influences on message theme selection were ranked on the basis of mean importance. Mean scores for the sample for each variable were first computed; then a summary statistic was calculated for the techniques identified as cost minimizers and as cost enhancers, respectively, so that the importance of the two categories of techniques could be compared. Finally, ANOVA was used to examine differences between groups on the basis of firm type (retail or service); operating environment (commercial zone or private home); and location (city, suburb, or rural area).

The relative importance of various production

techniques for the sample are reported in Table 4-40; t-test results between each method are also reported in the table. The mean values suggest that only one production technique (professional typesetting) was particularly important. In addition, t-values indicate that the differences between the pairs of ranked means for the variables are not statistically significant. This observation may be related to a lack of variation between responses for those who actually consider using any of these production methods. Another explanation may be related to the large number of "not applicable" and non-responses to these factors. Table 4-16 showed that upwards of 10% - 40% of the sample said the techniques did not apply to their promotion situation; about another 15% did not respond to the question.

Responses from independent judges were used to label the various production techniques as either cost enhancers or cost minimizers. (Reliabilities for the judges classifications and instructions for judging are summarized in Appendices VI and VII.) Calculating two summary statistics, the average importance of the five factors identified as cost minimizers was 1.59; the average importance of the five factors identified as cost enhancers was 1.69. A T-test of the differences between the cost enhancer and cost minimizer means ($t = 1.24$; significance = .219) indicated that the difference was not statistically significant.

The ANOVA analysis revealed two statistically significant differences between groups. With respect to business type, retail firms ($x = 2.57$) regarded the use of pictures and photographs as more important than service firms ($x = 1.90$) in producing promotion material ($F\text{-value} = 5.29$; significance = .023). Similarly, retail firms ($x = 2.01$) regarded the use of clip art as more important than service firms ($x = 1.48$) in production ($F\text{-value} = 3.90$; significance = .051).

In sum, this analysis does not show that small business decision-makers place more importance on factors which minimize the cost of producing promotion material; in fact, cost minimizing and factors which enhance the quality of production appear equivalent in relative importance. Thus, Hypothesis 7b is not supported.

Table 4-40. Relative Importance of Selected Variables in Producing Promotional Material

<u>Rank</u>	<u>Technique</u>	<u>Type</u>	<u>Mean Importance*</u>	<u>T-Val./Sig. T</u>	
1	Professional typesetting	E	2.86	-.87	.386
2	Use pictures/ photographs	E	2.35	-1.87	.064
3	Use same ad repeatedly	M	2.15	-1.52	.132
4	Use local media production services	M	1.84	-1.81	.073
5	Use ad service Clip Art	M	1.78	.32	.747
6	Use color (print ads)	E	1.66	1.07	.286
7	Do own artwork by hand	M	1.34	-2.57	.011
8	Hire a professional studio	E	1.01	-.31	.753
9	Appear in own ads	M	.98	.92	.361
10	Hire professional actors	E	.82		

"E" indicates techniques which enhance costs (and quality);
 "M" indicates techniques which minimize costs

*Mean Importance = Average of all scores on a 5-point scale, where:

- 0 (NA) = Method not applicable to marketing situation
- 1 = "Not Important"
- 2 = "Somewhat Unimportant"
- 3 = "Somewhat Important"
- 4 = "Very Important"

CHAPTER FIVE

DISCUSSION AND CONCLUSIONS

Introduction

This chapter summarizes and discusses the key statistical findings of the research. Implications of the research, relative to research questions raised early in this dissertation are also discussed. Contributions of the research are also indicated, and a model illustrating the findings are presented. Limitations of the research are highlighted and directions for future research are suggested.

Summary and Discussion of Key Findings

Promotion Decision Orientations in Small Firms

Organization Structure, Promotion Planning and Objective Setting

The data showed that the decision authority for promotion activity generally rested with one person in the firm, usually the owner/manager of the firm. No agents or departments were responsible for promotion decisions. This arrangement is typical in small firms, where decisions are made in a simple, decentralized organization structure.

With respect to promotion planning orientations in small firms, the data analysis indicated a direct, yet moderate, relationship between the perceived importance of short-term (operational) planning and the importance of

maintaining written promotion plans. Consistent with findings from other studies, operational planning was found to be very important in small firms. However, because more than 40 percent of the sample believed it was "somewhat unimportant" or "not important" to document promotion plans, the relationship between the variables was weakened. There are several explanations for this finding. There may be characteristics of the decision-maker (such as management training, education experience or personality traits) which prompt some decision-makers to document their plans while others do not. Also, the relative maturity of the firms which responded (54.9% were more than ten years old) suggests that an "experience" factor may be in effect. That is, decision makers with substantial experience promoting the firms feel it is not necessary to write the plans down, as they may make plans out of habit. Another possibility is that some types of promotion activities valued by small firms (such as referrals, personal selling and business card distribution) may not require documentation.

With respect to setting objectives for promotions, 86.6% of small firm decision-makers believed this activity was "very important" or "somewhat important," although most decision-makers (77.1%) spent less than two hours per week studying promotion information. Similar to the planning variable, the relationship between the perceived importance of setting promotion objectives and the amount of time

devoted to the study of promotion issues was direct, but not very strong. The lack of variance associated with the study time factor weakened the relationship between the variables. This phenomenon may be related to time constraints experienced by owner/managers in terms of responsibility for running various functions of the business. Also, it may suggest that the types of promotions studied and used by small firms do not require great amounts of time for consideration. Finally, decision-makers may avoid expending time considering promotion opportunities where they do not feel competent in terms of the ability to make a reasonable decision.

Usage of Information Sources in Promotion Decisions

Contrary to the findings of Young and Welsch (1983), which suggested that small firm decision-makers prefer electronic sources of information when making promotion decisions, this research indicated that interpersonal information sources (including customers, media salespeople, competitors, employees, family, friends, and business contacts) were used most heavily, followed by written, and electronic or institutional sources, respectively. Given that decision makers used an average of 5.4 types of information sources within a year, coupled with emphasis on interpersonal sources, the findings suggest that small business decision-makers participate heavily in flat, informal communication networks in managing the promotion

function of the firm. This data is consistent with models proposed by Stevenson (1983), Tybjee et al. (1983) and Carson (1985).

The data also indicated that age is the only characteristic of the firm related to the number of information sources used for promotion decisions and to the amount of time devoted to the study of promotion issues. The data showed that the number of information sources used decreases as the firm ages. Similarly, the time spent each week studying promotion information declines as the firm ages. The findings suggest that decision-makers eliminate some sources on the basis of past experience and/or become more habitual in their selection of sources. Over time, they also may become more expedient in terms of assessing information. Finally, the firm's owner/manager may become more disengaged from the operational functions of the business over time (through the use of aides) and his/her personal information network may become smaller, resulting in fewer sources used or less time spent with those sources.

Decision Orientations in Small Firms

The data analyzed in the assessment of decision orientations looked initially at the sample as a whole, then at subgroups within the sample on the basis of marketing education experienced. For the sample as a whole, the decision method most frequently used to assess future

promotion opportunities was equally likely to be associated with Bounded Rationality Theory ("past experience") or Social Model Theory ("intuition"). Beyond past experience and intuition, the sample tended to use decision methods associated with Bounded Rationality Theory - i.e. examining competitor's efforts and obtaining advice from business contacts. On the basis of pooled mean values for Classical Rational, Bounded Rationality, and Social Model decision methods, respectively, small business decision makers were significantly more likely to use decision methods associated with Bounded Rationality Theory when assessing promotion opportunities. This finding concurs with theories advanced by Cyert et al. (1956) and Simon (1979) which suggested that decision-makers pursue satisfactory, rather than optimal solutions to problems and seek solutions and information in a consecutive fashion, as needed. More important, this finding refutes the notion reflected in some academic and popular literature which suggests that decision-making in small firms is mainly characterized by Social Model decision methods (intuition and guesswork). While intuition may be frequently used in decision-making, this method also appears to be frequently supplemented by less subjective decision methods. Notably, the sample showed nearly no usage of methods associated with Classical Rational Decision Theory (statistical models; decision trees; computer simulations).

In addition, for the entire sample, none of the

evaluation methods for assessment of past promotion activity was used with great frequency and there was little variation in the given responses. The mean values for the evaluation method items were depressed since a combined total of 30% - 40% of the sample either failed to respond to the items or said that they "never" evaluated past promotions. The implications of this finding are that a substantial number of small business decision-makers fail to evaluate their promotion activities, or that the evaluation methods listed in the survey were not appropriate to the types of promotions used by the firms responding.

On the basis of marketing education, several differences among decision orientations emerged. Decision-makers who had experienced formal marketing education, either at the WSU Small Business Development Center (SBDC) or through college marketing courses, SBA or private marketing seminars, more frequently used decision methods associated with Bounded Rationality and Classical Rational Theory compared with those who had experienced no formal marketing education, when assessing promotion opportunities. (Despite this finding, Classical Rational methods were still used rather infrequently.) When evaluating past promotions, those who had experienced formal marketing education were significantly more likely to use evaluation techniques classified as moderate on the objectivity continuum. In addition, respondents who had experienced formal marketing

education used significantly more sources of information in making promotion decisions than did those with no formal marketing education.

The findings indicate that there is a relationship between formal marketing education and the decision orientations of small business decision makers. Namely, when assessing future promotion opportunities, those who have participated in some type of formal marketing education use more frequently decision methods which are more objective and comprehensive than their counterparts lacking formal marketing education. In addition, those who have had formal marketing education tend to evaluate past promotion activities more frequently than those who have not had such education, using a combination of subjective, moderate, and objective evaluation techniques.

Factors Which Influence Promotion Decisions in Key Areas in Small Firms

Influences on Budget Determination

Two variables were identified as the primary influence in setting the promotion budget in small firms: whether the desired promotion was affordable and whether it projected a positive image of the firm. Although financial constraints and cost concerns were widely reflected in the small business literature, the emergence of the image factor on the promotion budget decision was surprising since no other literature suggested this factor. This finding suggests that small business decision-makers are not only concerned

with keeping promotion expenditures low, but also want to be seen favorably in the marketplace. Prospective and current customers were also viewed as important influences on the budget decision, reflecting the small business decision-maker's concern with target audience issues. This finding concurs with Peterson's (1991) study reflecting small businesses' acceptance of the target audience concept. Another interesting observation is that the expenditures on promotions appeared to be rather low, concentrated in the \$1000-2500 range and generally not exceeding \$10,000 per year.

In looking at differences between various types of small firms, it was not surprising that retail firms placed significantly more emphasis on seasonal and holiday sales periods in setting the promotion budget than did service firms, since many retail sales periods are highly seasonal in nature. However, it was surprising to find that co-op advertising opportunities played a very limited role in the budget decision in small retail firms. This phenomenon may be related to some of the difficulties and low returns associated with participation, discussed by Patti and Walker (1980) and Knight and Crimmins (1986), that small retailers may have experienced when participating in co-op programs in the past. Or, it may reflect ignorance about existing co-op opportunities.

Another surprise in the findings was the influence of

competition on the promotion budget decision. The respondents regarded competitors' spending on promotions as "somewhat unimportant" overall and ranked this item last in terms of its relative influence on the promotion budget. In addition, ANOVA revealed no statistically significant differences in budget expenditure levels for firms whose decision-makers believed the firms were in low, moderate or intensely competitive situations, respectively. Thus, although small firm decision makers may talk to (or observe) competitors when seeking information about promotions, competitors' activities appear to have little bearing on the what the decision-maker will spend on his/her own promotions.

Influences on Communication Channel Selection

The respondents chose size of the promotion budget, characteristics of potential customers and whether the medium projected a positive image of the firm as the key influences on media or communication channel selection in small firms; none of these factors was more important than the others. These factors reflect the decision-makers' concern with what the budget can accomplish, whether the target prospects are reached and whether the communication channel presents a favorable image of the firm. Again, the emphasis on image of the firm adds a new dimension to the research; this finding was consistent across the sample, regardless of firm type, operating environment or location.

Consistent with previous findings, co-op advertising opportunities and competitor's promotions had little influence on the communication channel decision in small firms.

The perceived value of promotion opportunities also plays a role in communication channel selection. In sum, small firms placed a higher value on various non-media promotion channels (such as word-of mouth promotion, personal selling, business card distribution, store displays and signage) compared with traditional media advertising (such as yellow pages, newspaper, direct mail, radio, television and magazines). The only advertising medium assigned a relatively high value by the sample was yellow pages. Moreover, word-of-mouth promotion (referrals) was deemed the most valuable communication channel for small firms; word-of-mouth, in fact, was regarded as more valuable than any paid promotion option. This finding may be related to the cost differential between referrals, which are free to the firm, and paid advertising, which can be expensive. The high value of word-of-mouth referrals may also be linked to the perception that the sources of the referrals (probably current or former customers) are not manipulated by marketers and are viewed as credible by consumers. No difference on the value of word-of-mouth promotion was observed between retail and service firms.

Observing the values assigned to the 23 promotion

opportunities listed in the survey instrument, it becomes more clear why the promotion expenditure ranges cited previously indicated relatively low levels. The promotion channels rated "very valuable" and "somewhat valuable" tend to be associated with relatively inexpensive vehicles (referrals, business cards, displays, store signage). In addition, the performance of some of the highly valued vehicles may be difficult to measure given the evaluation method options listed in the survey. (This observation may explain why such a large proportion of the sample omitted items related to the promotion evaluation method questions.)

Influences on Creative and Production Tactics

When determining creative or message themes for promotions, whether the promotion message projected a positive image of the firm and communicated with prospective customers were the major influences. Again, the data show that co-op advertising requirements and competitor's promotions had little bearing on the development of message themes for small business promotions. In terms of production techniques for promotion materials, only one - professional typesetting - was rated "somewhat important" by the sample. Other techniques were indicated as not very important or not applicable to the decision-maker's marketing situation. As was the case with techniques used to evaluate past promotion activity, a significant proportion (15%) of the sample did not respond to this item,

suggesting that the response choices were irrelevant to them.

Responses to items indicating decision-makers' views toward small business advertising in general yielded interesting results. Almost 2/3 of the sample agreed that "I must keep costs at a minimum when promoting my firm." Comparison of two sets of techniques classified as either cost minimizing or cost enhancing promotion production strategies indicated that, on average, neither type was particularly important and neither type was more important than the other. Moreover, responses to "low budget advertising looks cheap and tacky" and "most low cost ads tend to project a positive image of the firm" yielded statistically mixed and inconclusive results. The sample split on whether advertising executions by small firms were attractive and whether they help or hurt the image of the firms.

The findings suggest that most of the survey techniques associated with developing material for promotions are not relevant to the respondent firms because these firms, in general, are not heavy users of traditional advertising and sales promotion activities. Retailers appear to be heavier users of traditional media advertising than service firms, since retail firms placed significantly more value on weekly and community newspaper ads than service firms, and because ANOVA analysis indicated that retail firms placed

significantly more importance on the use of pictures, photographs and clip art in promotions than service firms. Service firms regarded brochures and booklets as more important to their promotion efforts.

In sum, it appears that small firms are astute in finding less conventional and less expensive methods of promoting their firms including referrals, personal selling, business card distribution, displays, store signage and yellow pages advertisements. These strategies are consistent with their stated desire to keep promotion costs at a minimum. However, when small firms do engage in more traditional types of media advertising and sales promotions, they may not purchase a lot of quantity, but they are insistent that the executions enhance the image of the firm. Nonetheless, the relative quality and attractiveness of promotion material will vary since the executions are dependent upon the owner/manager's talents and perceptions of attractiveness, as well as the financial capabilities of the firm. The more successful firms may be very adept in doing more with less, by finding unique and creative ways to communicate with consumers.

Implications of the Research

In Chapter One of the dissertation, four questions were raised which have guided this research. These questions are restated here (in appropriate order) and their responses discussed.

1. Is there a "typical" or normative process demonstrated by decision-makers in small firms when making promotional decisions? How might these processes vary among different types of firms?

The research indicates that there is a normative process demonstrated by decision-makers making promotion decisions in small firms. This process is controlled by a single dominant decision-maker who has responsibility for gathering information, planning and setting objectives, and determining promotion tactics. This decision-maker spends a relatively small amount of time (less than two hours each week) considering promotion issues. The decision-maker is an active participant in a flat, informal communication network which includes customers, media salespeople, competitors, employees, family, friends and business associates. The decision-maker will consult these interpersonal sources, supplemented with written sources (especially trade publications and newspapers) in gathering information about promotion options. Younger firms will consult more sources and spend more time considering promotion issues than older firms will.

Decision makers seek satisfactory solutions to promotion problems in a sequential (i.e. trial and error)

fashion, rather than in a concurrent manner. Several decision methods are used in assessing promotion opportunities, including past experience, intuition, observing competitors, and getting advice from business contacts. With the exception of intuition, these methods are associated with Bounded Rationality decision theory, which implies a that moderate level of analytical rigor and objectivity are applied in making decisions.

After executing some promotion activity, most small business decision-makers will engage in some type of evaluation of that activity. In performing these evaluations, a variety of objective, moderate and subjective evaluation techniques are used, including tracking changes in sales volume, listening to customers talk about the promotion, noting changes in customer traffic, and comparing sales/profits to the same period last year. Based on the outcome of these evaluations, promotion decisions will be either maintained or revised. That is, if the promotions are deemed satisfactory, they will be used repeatedly. (This argument is bolstered by recent findings by Van Auken et al. (1992) which showed that promotion strategies used by small firms tend to be similar during the first and the most recent year of operation.) In addition, small firms may supplement their existing promotions by experimenting with new communication channels and tactics, using information gathered from its network of sources. There is little

variation in this decision process given various characteristics of small consumer-oriented firms, regardless of business type, operating environment, or location.

2. Do decision behaviors vary significantly between small business decision-makers who have received marketing education and those who have not?

The evidence indicated significant differences among decision behaviors between small business decision makers who have experienced formal marketing education and those who have not. When faced with promotion opportunities, if the decision-maker has experienced formal marketing education, he is more likely to utilize decision methods characterized by a higher degree of objectivity than decision makers without such education; he is also likely to consult more information sources in arriving at promotion decisions. In addition, decision-makers who have experienced formal marketing education are more likely to engage in evaluation of past promotions than those lacking marketing education; they also make greater use of those evaluation methods classified as moderate in terms of relative objectivity. However, decision-makers are just as likely to include subjective evaluation techniques in their repertoire of methods as their counterparts without formal marketing education. This conclusion does not imply that the outcome of decisions produced by decision-makers with formal marketing education are superior to decisions made by

those without such education.

3. Which factors exert the greatest influence on promotional decisions in small firms?

Consistently, image of the firm, financial ability and target audience characteristics exerted the greatest influence on promotion decisions in small firms. These results suggest that small business decision-makers make conscious tradeoffs between enhancing their images and containing costs when making promotion decisions, and that the target audience concept is well entrenched. Another consistent outcome of the research is that prospective customers were regarded as slightly more important than current customers in their influence on promotion decisions. This emphasis may be related to an emphasis on building clientele, rather than on maximizing the potential of the existing customer base. Another interesting finding was the lack of influence of competitor's promotion strategies on small firm's promotion decisions. This finding suggests that decision-makers are more concerned (self-centered, perhaps?) with how their firms are perceived by prospects and customers within their defined market niches than with what competitors might be communicating to those same people. Another explanation is that these firms have carved out such a small niche in the marketplace (based on specialization or geography) that competitors are not perceived to constitute a threat.

Only a few significant differences in relative influences on promotion decisions between small retail and service firms were revealed. When determining the promotion budget, service and home-based firms placed slightly more importance on characteristics of current customers than retail firms and firms located in commercial zones, respectively. Retail firms placed more emphasis on seasonal/holiday sales periods when setting the budget and when determining themes for promotion copy.

4. Are large firm models of promotion decision processes appropriate to the study of promotion decision-making in small firms?

It can be argued that models cited in the literature review, while appropriate for the study of promotion decision-making in large firms, are inappropriate for the study of promotion decision making in small firms. For example, models developed by Patti and Frazer (1988) and Schultz (1990) suggest that promotion decisions in organizations flow from broader strategic planning and goals, while strategic planning has been shown to be relatively uncommon in small firms (Robinson & Pearce, 1984; Shrader et al., 1989). These models also represent a formalized top-down flow of decision authority, in a hierarchy setting, which is unlike the flat, informal communication network that small firm decision-makers participate in. These same models treat various promotion

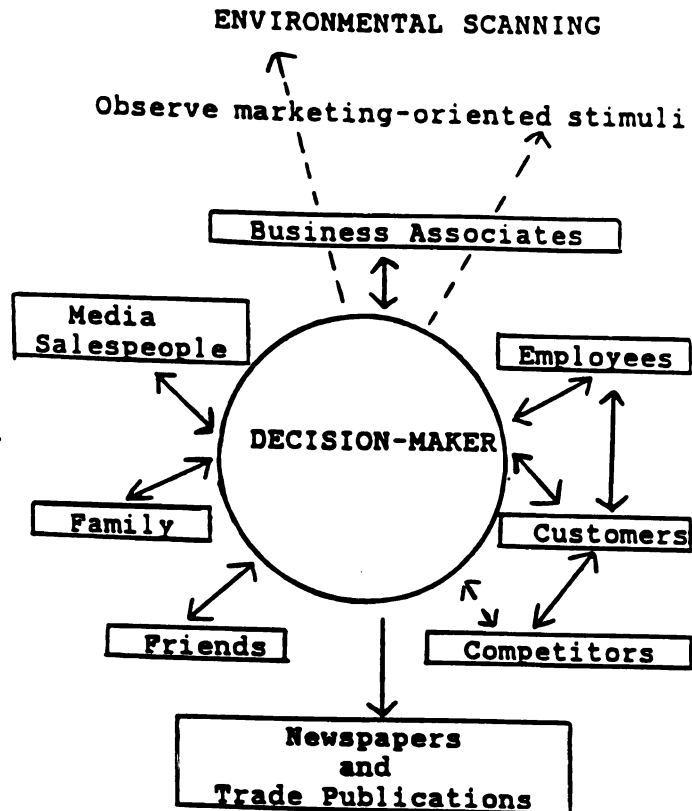
activities (advertising, sales promotions, personal selling, public relations, direct marketing, etc.) as separate functions, while it is not apparent that small firm decision-makers view these activities as distinct.

Similarly, traditional models treat each type of promotion activity as a function handled by different managers, while all of these activities are managed, usually by one person, in small firms. This suggests an integration of promotion functions and activities in small enterprises. In addition, Ray (1973) and Blattberg and Neslin (1990) provide promotion planning models which suggest functional relationships (including the presence of departments and divisions), interrelationships between functions and myriad marketing tasks in the promotion decision process. However, the small firm research indicates that the simple, decentralized organization structure typical of small firms lacks the resources to support complex functional relationships. Moreover, the data suggest that the small firm decision-maker has neither the time or the expertise to attend to the myriad marketing tasks represented in these models. In sum, these arguments suggest that traditional, top-down, functionally complex models of promotion decision-making are inappropriate for studying small firm promotion decisions. Thus, models which reflect the realities of the small firm decision environment need to be developed. In keeping with this argument and the preceding findings, a model which

illustrates the promotion planning process in small firms is presented here in Figure 5.1.

DECISION MAKER'S ROLEILLUSTRATED DECISION PROCESSStage 1: Integration of Information

Decision-maker scans business environment on an ongoing basis and observes marketing-oriented stimuli. The decision-maker actively participates in a flat, informal communication and information network gathering information about promotion opportunities. Decision-maker also observes competitors' activities and may consult written information sources.

Stage 2: Planning and Objective Setting

Decision maker seeks a satisfactory solution to problems and/or opportunities, using a combination of decision methods. Solutions are sought on the basis of perceived need.

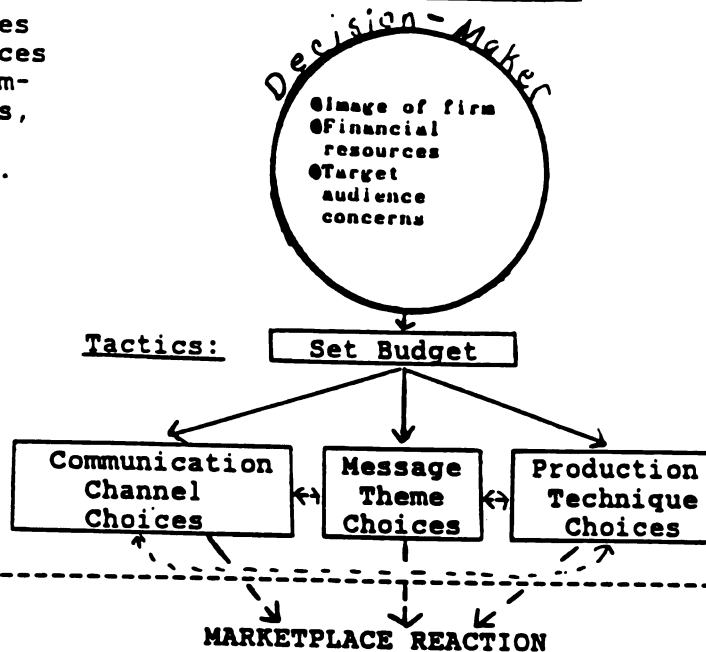
Decision methods:

Figure 5.1 The Promotional Decision-Making Process in Small Firms

Stage 3: Promotion Tactical Decisions

Decision maker makes key promotion choices with respect to communication channels, messages, and production methods. These choices are heavily influenced by a desire to project a positive image of the firm, financial ability of the firm, and perceived target audience characteristics and issues.

Key influences on promotion tactical decisions:



Stage 4: Evaluation of Promotion Tactics

Marketplace reactions to promotions are observed. Some decision makers may not evaluate this reaction; most engage in various evaluation techniques. If the evaluation is deemed not satisfactory, the decision maker returns to Stage 1 for new information. If the evaluation is satisfactory, tactics similar to those chosen in Stage 3 are repeated; experiments with new supplemental tactics may occur.

Evaluation methods:

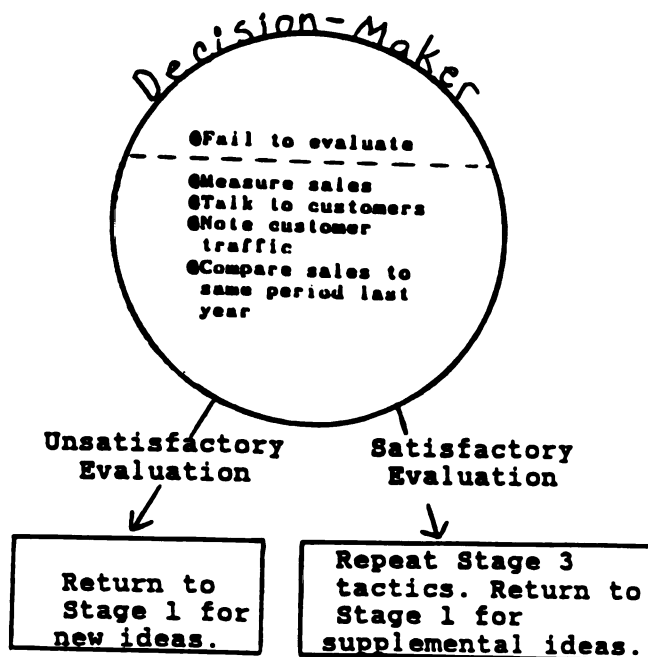


Figure 5.1 (cont'd).

Contributions of the Research

This dissertation has provided a better understanding of how promotional decisions are made in small businesses by examining organization structure, describing operative decision orientations, and identifying key factors which influence various aspects of promotion decisions. The research has confirmed some previous findings and theoretical arguments and has disconfirmed some common myths about small firm promotion planning and decision-making. Moreover, this work has provided evidence which indicates that traditional promotion planning and decision models are not relevant to the study of promotion decision making in small firms. The research has also uncovered several findings, although somewhat preliminary in nature, which suggest that formal marketing education has a significant impact on the promotion decision process in small firms.

Finally, the research has prompted the development of a theoretical model which explains and predicts promotion decision behaviors in small firms using "real world" observations. This model building is an important early step in scholarly marketing theory development, an area of neglect in small business research. As Hills and LaForge (1992, p. 53) argued on the topic of theory development in small business marketing, "One need in the entrepreneurship field is to create an integrated framework within which entrepreneurship knowledge can be analyzed and utilized for

the purposes of explanation and prediction." Thus, this work begins to fill some of the void in the development of small business marketing theory. In addition, the work has application for students of entrepreneurship and practitioners, as the model reflects the realities of decision-making in small business settings. In this sense, the modeling has direct relevance to marketing education for prospective and existing entrepreneurs. Combined with other research, this work has promise in terms of educating small business decision-makers and enhancing the viability of small firms.

Limitations of the Research

The primary limitation of this research is the relatively low response rate. Although the number of responses returned exceeded those of most of the studies cited in the literature review, the small sample size precludes broad generalizability of the findings. In addition, because the sample included only firms located in Midwestern states, differences on the basis of regionality cannot be explored. Also, the relative homogeneity of the sample in terms of racial characteristics inhibits any comparisons based on race or ethnicity.

Other limitations of this research were linked to the data collection instrument. The length of the instrument was seven pages (excluding cover letter) and included

twenty-nine items. The length may have contributed to a perception by some recipients that the survey was too long or difficult to respond to. Another limitation was associated with some items requiring range responses. For one variable - time spent studying promotion issues - the allowed range of responses could have been shortened (to 30-minute intervals, perhaps) in order to increase the variance associated with this factor. With respect to ranges on promotion expenditure levels and annual revenues, responses could have been set up in equal intervals for the same reason.

Finally, this research sought more breadth than depth with respect to how promotional decisions are made in small firms. Thus, some of the work - especially that concerning the marketing education variable - lacked substantial depth and detail. However, this lack of depth brings to light several topic areas which may be investigated in the future.

Suggestions for Future Research

The findings of this research, in conjunction with the stated limitations, raise issues which may be explored. In terms of methodological issues, several potential topics are raised. Given the use of a commercial list as one source of respondents, one possible area of research concerns the effect of mailing lists in studying small business

executives. Also, an experimental study might look at differences in response rates from small business executives associated with questionnaire length and item complexity. Another possibility is to compare response rates and data quality associated with survey responses collected by mail and by telephone.

Several topical issues may also be explored further. More work on the impact of marketing education in marketing planning and decision making in small firms needs to be done. Depth research on promotions valued by small firms and how these promotions are evaluated may also shed new light on the findings presented here. Another investigation should look in more detail at age of the firm as a factor in marketing decision-making. A potentially promising area of research concerns image management through promotion activity in small firms - this dimension could be examined from the perspective of the business executive as well as target consumers. A difficult, but worthwhile area of research would look at small firm promotion strategies compared with firm performance. Finally, this area of study could benefit from the development of case studies about small business marketing - many popular case books used in academia appear to be oriented toward larger firms. The development of cases could benefit small business practitioners and students, and aid scholars in teaching and research.

APPENDIX I

**TOTAL U.S. ADVERTISING SPENDING AND SHARES BY INDUSTRY,
1981 - 1987**

APPENDIX I

Total U.S. Advertising Spending and Shares by Industry, 1981-87

(Dollar amounts reported in thousands;
Ratio of industry expenditure to total
annual advertising expenditure reported
in parentheses)

1987 Rank	Industry Class	1987 \$000/(%)	1985 \$000/(%)	1983 \$000/(%)	1981 \$000/(%)
1	Automotive & Equip	3,321,363 (13.3)	2,425,921 (10.9)	1,756,541 (10.2)	1,212,903 (8.7)
2	Food/Food Products	3,045,408 (12.2)	2,760,734 (12.1)	2,211,753 (12.9)	1,810,321 (13.0)
3	Business/Consumer Services	1,891,239 (7.6)	1,644,915 (7.2)	1,070,425 (6.3)	671,336 (4.8)
4	Retail	1,854,220 (7.4)	1,510,616 (6.6)	1,046,328 (6.1)	765,107 (5.5)
5	Entertainment	1,829,987 (7.3)	1,488,776 (6.5)	1,007,458 (5.9)	730,787 (5.2)
6	Toiletries & Cosmetics	1,702,656 (6.8)	1,755,443 (7.7)	1,520,576 (8.9)	1,356,861 (9.7)
7	Drugs/Remedies	1,272,275 (5.1)	1,088,270 (4.8)	884,001 (5.2)	749,327 (5.4)
8	Beer/Wine/Liquor	1,124,132 (4.5)	1,037,919 (4.5)	906,605 (5.3)	794,991 (5.7)
9	Confectionery & Snacks/Soft Drinks	1,001,646 (4.0)	996,346 (4.4)	798,816 (4.7)	652,838 (4.7)
10	Mail Order	803,764 (3.2)	681,216 (3.0)	---	---
11	Travel, Hotels & Resorts	803,152 (3.2)	678,992 (3.0)	488,202 (2.9)	331,083 (2.4)
12	Apparel, Footwear & Accessories	664,628 (2.7)	570,834 (2.5)	611,208 (3.6)	476,485 (3.4)
13	Household Equip. & Supplies	568,435 (2.3)	553,947 (2.4)	465,903 (2.7)	435,347 (3.1)
14	Insurance & Real Estate	537,543 (2.2)	383,962 (1.7)	229,433 (1.3)	191,071 (1.4)
15	Cigarettes & Tobacco/Access.	534,352 (2.1)	680,100 (3.0)	683,104 (4.0)	555,093 (4.0)
16	Soaps/Cleaners/ Polishes	518,796 (2.1)	631,824 (2.8)	558,299 (3.3)	463,147 (3.3)
17	Sporting Goods/ Games Toys	475,588 (1.9)	491,348 (2.1)	334,249 (2.0)	307,856 (2.2)
18	Computers/Ofc. Equip./Stationery	472,283 (1.9)	555,826 (2.4)	527,367 (3.1)	221,741 (1.6)
19	Publishing/Media	422,994 (1.7)	377,290 (1.6)	527,367 (3.0)	377,771 (2.7)
20	Jewelry/Optical Goods/Cameras	323,450 (1.3)	308,879 (1.3)	305,677 (1.8)	276,520 (2.0)

APPENDIX I (Cont'd.)

1987 Rank	Industry Class	1987 \$000/(%)	1985 \$000/(%)	1983 \$000/(%)	1981 \$000/(%)
21	Building Equip. & Materials	272,708 (1.1)	254,019 (1.1)	181,788 (1.1)	196,061 (1.4)
22	Pets/Pet Food & Supplies	256,206 (1.0)	275,153 (1.2)	---	---
23	Electronic Entertainment	243,029 (1.0)	238,253 (1.0)	404,175 (2.4)	305,173 (2.2)
24	Household Furnishings	233,614 (1.0)	155,759 (.7)	150,942 (.9)	137,656 (1.0)
25	Gasoline/Fuel/ Lubricants	210,570 (.8)	180,537 (.8)	142,742 (.8)	205,592 (1.5)
26	Horticulture & Farming	154,933 (.6)	126,095 (.6)	123,849 (.7)	104,759 (.8)
27	Miscellaneous, not Elsewhere Listed	124,413 (.5)	126,983 (.6)	---	445,559 (3.2)
28	Miscellaneous, not itemized	102,544 (.4)	82,743 (.4)	---	---
29	Freight, Indus., Agricultural Dev.	71,861 (.3)	106,283 (.3)	102,501 (.6)	55,027 (.4)
30	Industrial Material	71,806 (.3)	78,658 (.3)	69,336 (.4)	89,961 (.6)
31	Business Prop./ Empl. Recruitment	19,878 (.08)	26,035 (.1)	---	---
32	Airplanes & Aviation Equip.	12,042 (.05)	12,211 (.05)	10,738 (.06)	15,326 (.1)
TOTAL ADVERTISING:		\$24,941,515	22,285,887	17,104,035	13,933,696

Note: Appendix shows spending in the following mass media categories: consumer magazines; newspapers; newspaper supplements; outdoor; network TV; spot TV; cable TV; network radio. Data includes only the top 75 U.S. media markets as ranked by Arbitron, Inc.

Sources: BAR/LNA Multi-Media Service AD \$ Summary, 1982 and 1988.
New York: Leading National Advertisers, Inc.

APPENDIX II
ENTREPRENEURIAL INFORMATION SOURCES

APPENDIX II

Entrepreneurial Information Sources

Electronic Sources

Television

Radio

Computers

Video

Institutional Sources

Educational:

Colleges/Universities

University-Based Small

Business Development

Centers (SBDCs)

Government:

IRS

Commerce Dept.

OSHA

Small Business

Administration

Other government agencies

Local government agencies

State government agencies

Interpersonal Sources

Business Contacts:

Vendors

Suppliers

Customers

Employees

Competitors

Agents

Business clubs/associations

Professional societies

Non-business Associates:

Family members

Friends

Neighbors

Civic/Community groups

Professional Consultants:

Bankers

Accountants

Lawyers

Management Consultants

Marketing Consultants

Advertising Agencies

Written Sources

Books:

Reference Books

Handbooks

Manuals

Catalogs

Yellow Pages

News/Business/Trade Publications:

Time

Newsweek

U.S. News & World Report

Business Week

Nation's Business

Fortune

Forbes

Inc.

Venture

Money

Crain's

Barron's

Professional journals

Industry Trade journals

Newspapers:

Wall Street Journal

New York Times

Washington Post

Chicago Tribune

Chicago Sun Times

Local dailies/weeklies

Adapted from Welsch, Harold P. & Young, Earl C. (1982). The Information Source Selection Decision: The Role of Entrepreneurial Personality Characteristics. Journal of Small Business Management, 20 (October), 49-57.

APPENDIX III

**U.S. SMALL BUSINESS ADMINISTRATION
SMALL BUSINESS SIZE STANDARDS FOR RETAIL AND SERVICE FIRMS**

APPENDIX III

**U.S. Small Business Administration Small Business Size
Standards for Retail and Service Firms**
(in millions of dollars)

<u>SIC CODE</u>	<u>DESCRIPTION</u>	<u>SIZE LIMIT</u> (<u>\$</u>)
Retail Establishments		
Major Group 52: Building Materials/Hardware/Garden		
5211	Lumber/Building Materials Dealers	3.5
5231	Paint/Glass/Wallpaper Stores	3.5
5251	Hardware Stores	3.5
5261	Nurseries/Lawn/Garden Supply Stores	3.5
5271	Mobile Home Dealers	3.5
Major Group 53: General Merchandise Stores		
5311	Department Stores	13.5
5331	Variety Stores	5.5
5399	General Merchandise Stores	3.5
Major Group 54: Food Stores		
5411	Grocery Stores	13.5
5422	Freezer and Locker Meat Provisioners	3.5
5423	Meat and Fish (Seafood) Markets	3.5
5431	Fruit and Vegetable Markets	3.5
5441	Candy/Nut/Confectionery Stores	3.5
5451	Dairy Product Stores	3.5
5462	Retail Bakeries - Baking and Selling	3.5
5463	Retail Bakeries - Selling only	3.5
5499	Miscellaneous Food Stores	3.5
Major Group 55: Auto Dealers and Gasoline Stations		
5511	Motor Vehicle Dealers (New and Used)	11.5
5521	Motor Vehicle Dealers (Used Only)	11.5
5531	Auto/Home Supply Stores	3.5
5541	Gasoline Service Stations	4.5
5551	Boat Dealers	3.5
5561	Recreational and Utility Trailer Dealers	3.5
5571	Motorcycle Dealers	3.5
Major Group 56: Apparel and Accessory Stores		
5611	Men and Boys Clothing/Furnishing Stores	4.5
5621	Women's Ready-to-Wear Shoes	4.5
5631	Women's Accessory and Specialty Stores	3.5
5641	Children's/Infant's Wear Stores	3.5
5651	Family Clothing Stores	4.5
5661	Shoe Stores	4.5
5681	Furriers and Fur Shops	3.5
5699	Misc. Apparel/Accessory Shops	3.5

APPENDIX III (cont'd.)

Major Group 57: Furniture and Home Equipment Stores		
5712	Furniture Stores	3.5
5713	Floor Covering Stores	3.5
5714	Drapery, Curtain & Upholstery Stores	3.5
5719	Misc. Home Furnishing Stores	3.5
5722	Household Appliance Stores	4.5
5732	Radio & Television Stores	4.5
5733	Music Stores	3.5
 Major Group 58: Eating and Drinking Places		
5812	Eating Places (Except Food Services)	3.5
5812	Food Services	10.0
5813	Drinking Places (alcoholic Beverages)	3.5
 Major Group 59: Miscellaneous Retail		
5912	Drug and Proprietary Stores	3.5
5921	Liquor Stores	3.5
5931	Used Merchandise Stores	3.5
5941	Sporting Goods/Bicycle Shops	3.5
5942	Book Stores	3.5
5943	Stationery Stores	3.5
5944	Jewelry Stores	3.5
5945	Hobby/Toy/Game Shops	3.5
5946	Camera & Photographic Supply Stores	3.5
5947	Gift/ Novelty/ Souvenir Shops	3.5
5948	Luggage & Leather Goods Shops	3.5
5949	Sewing, Needlework & Piecegoods Shops	3.5
5961	Mail Order Houses	12.5
5962	Automatic Merchandising Machine Oper.	3.5
5963	Direct Selling Establishments	3.5
5982	Fuel & Ice Dealers	3.5
5983	Fuel Oil Dealers	6.0
5984	Liquefied Petroleum Dealers	3.5
5992	Florist	3.5
5993	Cigar Stores and Stands	3.5
5994	News Dealers and Newsstands	3.5
5999	Miscellaneous Retail Stores, N.E.C.	3.5

APPENDIX III (cont'd.)

Service Establishments

Major Group	64: Insurance Agents, Brokers and Service	
6411	Insurance Agents, Brokers and Service	3.5
Major Group	65: Real Estate	
6514	Operators of Res. Mobile Home Sites:	3.5
6514	Leasing of Building Space to Fed. Gov't.	10.0
Major Group	70: Hotels, Camps and other Lodging Services	
7011	Hotels/Motels/Tourist Courts	3.5
7021	Rooming & Boarding Houses	3.5
7032	Sporting & Recreational Camps	3.5
7033	Trailer Parks/ Camp Sites for Transients	3.5
7041	Organization Lodging on Membership Basis	3.5
Major Group	72: Personal Services	
7211	Power Laundries, Family & Commercial	7.0
7212	Laundry & Dry Cleaning Agents	3.5
7213	Linen Supply	7.0
7214	Diaper Service	7.0
7215	Coin-Operated Laundry & Dry Cleaning	3.5
7216	Dry Cleaning Plants (Except Rugs)	2.5
7217	Carpet/Upholstery Cleaning	2.5
7219	Laundry and Garment Services, N.E.C.	3.5
7221	Photographic Portrait Studios	3.5
7231	Beauty Shops	3.5
7241	Barber Shops	3.5
7251	Shoe Repair Shops, Shoe Shine Parlors & Hat Cleaning Shops	3.5
7261	Funereal Services & Crematories	3.5
7299	Miscellaneous Personal Services	3.5
Major Group	75: Automotive Repair, Services and Garages	
7512	Passenger Car Rental and Leasing	12.5
7513	Truck Rental and Leasing	12.5
7519	Utility Trailer & RV Rental	3.5
7523	Parking Lots	3.5
7525	Parking Structures	3.5
7531	Top and Body Repair Shops	3.5
7534	Tire Retreading and Repair Shops	7.0
7535	Paint Shops	3.5
7538	General Automotive Repair Shops	3.5
7542	Car Washes	3.5
7549	Automotive Services, Except Repair and Car Washes	3.5
Major Group	76: Repair Services	
7622 - 1766	Miscellaneous Repair Service (Except Automotive)	3.5

APPENDIX III (cont'd.)

Major Group 78: Motion Pictures		
7813	Motion Picture Production	14.5
7814	Motion Picture and Tape Production	14.5
7823	Motion Picture Film Exchanges	14.5
Major Group 79: Amusement and Recreation Services		
7911	Dance Halls, Studios & Schools	3.5
7922	Theatrical Producers	3.5
7929	Bands, Actors, Groups & Entertainers	3.5
7932	Billiard and Pool Establishments	3.5
7933	Bowling Alleys	3.5
7941	Professional Sports Clubs & Promoters	3.5
7993	Coin-Operated Amusement Devices	3.5
7996	Amusement Parks	3.5
7999	Amusement & Recreations Services, N.E.C.	3.5
Major Group 80: Health Services		
8011	Offices of Physicians	3.5
8021	Offices of Dentists	3.5
8041	Offices of Chiropractors	3.5
8042	Offices of Optometrists	3.5
8049	Offices of Health Practitioners, N.E.C.	3.5
8051	Skilled Nursing Care Facilities	3.5
8059	Nursing and Personal Care Facilities	3.5
8062	General Medical/Surgical Hospitals	3.5
8063	Psychiatric Hospitals	3.5
8069	Specialty Hospitals (except psychiatric)	3.5
8071	Medical Laboratories	3.5
8072	Dental Laboratories	3.5
8081	Outpatient Care Facilities	3.5
8091	Health and Allied Services, N.E.C	3.5
Major Group 81: Legal Services		
8111	Legal Services	3.5
Major Group 82: Educational Services		
8299	Schools and Educational Services, N.E.C.	3.5
8299	Flight Training Services	12.5

Source: U.S. Small Business Administration (Feb. 9, 1984).
 Small Business Size Standards; Revision; Final Rule.
Federal Register, 5024-5043.

APPENDIX IV
DEPTH INTERVIEW RESPONSES

APPENDIX IV

DEPTH INTERVIEW RESPONSES

Business and Owner Profiles

<u>Type of business/ Trading area(s)</u>	<u>Owner(s) Profile</u>
Millinery retailer (Private home; trade shows)	Female, black, mid-40s
Custom-made doll retailer (Private home, trade shows and local flea markets)	Female, black, late 30s; Male, black, early 40s
Chiropractic service (Clinic)	Female, black, late 40s
Health/stress management service (Salon)	Female, black, mid-40s
Jewelry retailer (Downtown store)	Male, white, mid-40s
Men's clothing retailer (Downtown store)	Male, white, early 50s; Male, white mid-50s

Interview Questions and ResponsesGeneral belief statements:

Q1. In your opinion, what are some benefits of advertising a business?

"To make money." (Milliner)

"To make sales and generate customer traffic." (Doll maker)

"To make people aware of your service or location." (Chiropractor)

"To recruit clients." (Health clinician)

"To establish a professional reputation and credibility." (Health clinician)

"To alert customers to goods and services." (Jeweler)

"To establish name identity and portray your name to the public." (Clothier)

Q2. What do you think are some good sources of information to use to find out about advertising and promotion choices?

- "The library" (no specific references cited).
(Milliner)
- "Other small business people" (in related or unrelated industry). (Doll maker)
- "My system is totally arbitrary. I look at other (chiropractors) and study a friend's newsletter."
(Chiropractor)
- "Professional and trade organizations." (Health clinician)
- "The Small Business Development Center." (Health clinician)
- "The Yellow Pages" (under "advertising/marketing").
(Health clinician)
- (Academic) "textbooks." (Clothier)
- "Professional consultants." (Clothier)
- "Manufacturer's literature and industry promotion service guides." (Jeweler)
- "Business neighbors." (Jeweler)

Q3. What is your opinion toward advertisements placed by small firms in general? Are they effective? Creative? What kinds of images do they project? Are they believable?

- "I don't notice and don't care what other small firms do." (Milliner)
- "I don't pay attention." (Doll maker)
- "I think they are quite good." (Chiropractor)
- "They draw attention to the businesses." (Chiropractor)
- "Some tell lies." (Chiropractor)
- "They don't look professionally done." (Health clinician)
- "They look tacky." (Health clinician)
- "They are not eye-catching." (Clothier)
- "Creativity is hampered because small firms can't afford an ad agency." (Clothier)
- "The ads are redundant - the same material is used over and over again." (Clothier)
- "The ads are believable, but some claims arouse suspicion." (Jeweler)
- "Ads today are more truthful than they used to be."
(Jeweler)
- "They portray a poor or downscale image of the firm."
(Jeweler)
- "About half are creative and effective. The rest are junk." (Jeweler)

Q4. What do you think are some difficulties that entrepreneurs face in choosing promotions for their firms?

- "Lack of money." (Milliner)
- "The expense." (Doll maker)
- "Promotion is difficult to afford along with other business expenses." (Doll maker)
- "I have seen other firms have difficulty paying for ads." (Doll maker)
- "They don't have enough experience in doing it." (Chiropractor)
- "They don't realize the work involved." (Chiropractor)
- "Promotion can be very costly." (Health clinician)
- "Don't know how effective it will be; a lot of trial and error is involved." (Health clinician)
- "Not sure how to get the 'right mix' of promotions." (Clothier)
- "Cost, in terms of getting return for the investment." (Jeweler)
- "Not knowing who to advertise to." (Jeweler)
- "Not knowing where to advertise." (Jeweler)

Q5. What would you say are the main differences between advertising and promotion choices between large and small firms?

- "It costs more to do more advertising in large firms." (Milliner)
- "Small firm's advertising lacks the creativity of large firms." (Milliner)
- "Large firms can afford more expensive advertising; Large firms can run ads more frequently; Large firms can use more media simultaneously." (Chiropractor)
- "Large firms have the money to buy TV and radio time. I can't even afford (local) cable." (Health clinician)
- "Large firms can afford more creativity and special effects." (Clothier)

Q6. Which do you think is more effective for small firms, paid advertisements and promotions or word-of-mouth promotion? Why?

- "Starting out, I can afford only word-of-mouth." (Milliner)
- "Paid advertising, because it reaches more people." (Doll maker)
- "Both are important, but word of mouth worked better in the early stages of the business." (Chiropractor)
- "Word-of-mouth was important in the early stages of the business. But advertising in print provides a more

- tangible reminder of the business." (Health clinician)
 "Both are effective, but if only 50% of your buyers are repeat customers, then paid advertising is necessary to attract new customers." (Jeweler)
 "Word-of-mouth advertising is the most effective promotion method since it helps in maintaining credibility and a good reputation." (Clothier)

Views on setting objectives:

- Q7. How important would you say advertising is for your firm?
 (Rated on a scale of 1-10, 10 being the highest).

(All considered advertising to rate an 8, 9, or 10.)

Comments:

"A good image is key."

"I see advertising as important, but as a part of the marketing process, it is complex and needs coordination."

- Q8. What goals are you trying to accomplish with your advertising and promotion strategies (any method)?

"To bring money in/ increase the business." (Milliner)

"To let people all over the world know my work." (Doll maker)

"To pay for itself (the ads)." (Chiropractor)

"To enhance my reputation." (Health clinician)

"My goal is to achieve a percentage increase in sales over the same period last year." (Jeweler)

"My goal is to get customers inside the store." (Clothier)

- Q9. How might you go about choosing a promotion method for your firm? What factors would you consider?

"I look at the potential for making money." (Milliner)

"I consider advice and suggestions of business contacts." (Doll maker)

"I look at cost, past experience, and friends' suggestions." (Chiropractor)

"I rely on past experience." (Mentioned twice).

"I look at what I can afford." (Health clinician)

"Seasonal and monthly sales patterns." (Jeweler; clothier)

"I look at other jewelers and sales history." (Jeweler)

"I look at my competitor's activities." (Clothier)

- Q10a. Who is mainly responsible for planning advertisements and promotions for your firm?

(All respondents said they were directly responsible for making promotion decisions. Doll maker made promotion decisions with business partner. Health salon owner was planning to hire a marketing consultant in the near future.

Q10b. What are some reasons for using the type of promotion used by your firm? Why was this strategy chosen?

"I was encouraged by a relative." (Milliner)

"I relied on my past experience." (Chiropractor)

"I thought it might work." (Doll maker)

"My competitors were doing it." (Clothier)

"I tried to do something different to stand out from the competition." (Chiropractor)

Q10c. Is any one of the reasons you stated more important than another?

(Most respondents uniformly replied, "No.")

"Cost is the major factor." (Chiropractor)

"My system of tracking inquiries and registration is important." (Health clinician)

Budgeting Issues:

Q11. How do you determine how much to spend promoting the firm? Are any particular methods used?

"I use a percent of the total operating budget for promotion." (Health clinician)

"My promotion expenses are subsidized by a business partner. There is no particular method that I use." (Doll maker)

"It depends on total operating costs, although no percentage is set aside." (Chiropractor)

"I use a percentage of sales, based on the same month last year." (Jeweler)

(Others could describe no particular method or technique.)

Q11a. How far in advance do you set a budget?

"One year in advance." (Health clinician)

"There is no plan for the budget." (Doll maker)

"An annual budget is set, but it is reviewed each month." (Clothier)

"Monthly or quarterly." (Jeweler)

(Others could not say when the budget was set, if any.)

Q11b. How often does your budget change?

"We might change strategy twice in a year."

(Chiropractor)

"There's no schedule." (Health clinician)

"We plan on a monthly basis." (Jeweler)

"It depends. It might change up to twelve times a year since we review it monthly." (Clothier)

(Others had no response to this question.)

Q11c. For what reasons might your budget change?

"Budget would change if ads were not working."

(Milliner)

"I would change the (channel) and the content of the ad if it were not working." (Chiropractor)

"I might cut down on advertising if it became too expensive." (Doll maker)

"My budget would change depending on sales volume and the season." (Clothier)

"I reduced my advertising when I reduced my client fees." (Chiropractor)

Q12. Do you think that you spend more, less, or about the same on promotion than competitive firms in your type of business? How do you know this?

"I think I spend less because I am a start-up firm."

(Milliner)

"I think I spend more. I watch what others do." (Doll maker)

"I guess I spend about the same. My competitors are all using Yellow Pages, although two use cable and one uses telemarketing." (Chiropractor)

"I believe I spend proportionately more, given that this is a one location, independent shop." (Clothier)

"I spend more because I am supporting several services under one roof." (Health clinician)

"We spend less, sometimes because we do not agree with the manufacturer's (co-op) promotion program. We had a newspaper contract, but dropped it because of the expense." (Jeweler)

Q13. Are you familiar with any other techniques that businesses use to set advertising budgets? If so, can you describe them?

"I know the percentage of sales method." (Clothier)

(Other respondents uniformly replied "No" and were unable to describe any budget setting techniques.)

Target Audience Selection Issues:

Q14. Are your firm's products or services aimed at a particular type of customer?

(Respondents uniformly replied "Yes").

Q14a. On what basis were your customers chosen?

All respondents mentioned a number of demographic characteristics, including income, geographic location/residence, race, sex, age, occupation and religious affiliation. Psychographic orientations were mentioned, including special interests and hobbies (collectors, enthusiasts), price consciousness, quality consciousness and fashion consciousness.

Q14b. How did you go about finding out about these people? Did you refer to any particular sources of information? What were they?

"I learned about my customers through word-of-mouth, especially other business contacts, exhibitors and collectors." (Doll maker)

"I saw a deficit in serving the (black) community, based on past experience." (Health clinician)

"I know about the types of customers based on experience in another practice where I trained." (Chiropractor)

"Manufacturers provide customer profile information about two times per year." (Jeweler)

"I used old customer lists, community and professional directories to survey prospects." (Clothier)

"I hired a consultant to help with customer analysis by zip code." (Clothier)

"I get a lot of contacts through church groups." (Milliner)

Media and Promotion Strategy Selection Issues:

Q15. What methods (channels) have you used to reach customers?

A variety of methods was mentioned, including word-of-mouth promotion (without any paid advertising); traditional mass media channels including daily and special-interest newspapers, radio, spot and cable TV, direct mail and yellow pages. A number of promotional items were mentioned, including newsletters, magnetic calendars, flyers, t-shirts and sweatshirts, unique business cards, and small premiums (pens, shoe horns).

The doll maker and milliner participated in trade fair exhibitions; the doll maker also sets up a flea market exhibit on weekends and travels to doll shows. The firms which used any type of advertising or promotion used several methods simultaneously. Only the milliner used no paid advertising or promotion.

Q16. Why were these particular methods (above) chosen?

- "I was encouraged by a relative." (Milliner)
- "I did what I could afford." (Doll maker)
- "I thought they would be effective." (Health clinician)
- "I thought they provided uniformity and projected a professional image." (Chiropractor)
- "I believed they would prompt an immediate response." (Jeweler)
- "I had to be concerned with the immediate needs of the firm - to boost sales." (Clothier)

Q17. What differences do you perceive between ads placed in the media, like radio, TV, newspapers, magazines and billboards and other non-media promotions that might be used to promote your firm, in terms of the VALUE of the strategy?

- "Using TV, radio, etc. wouldn't profit a small business because the ads would eat up all the funds." (Milliner)
- "Using media advertising is too expensive for a small business." (Milliner)
- "Advertising is nice if you have the money." (Doll maker)
- "Advertising is for big shots." (Doll maker)
- "TV, even radio, would bring in more customers than I could handle." (Chiropractor)
- "(Non-media) promotions keep people aware of the firm." (Chiropractor)
- "Not all promotions have longevity - but some do get immediate results." (Health clinician)
- "Promotions, like t-shirts and give-a-ways, get immediate response." (Health clinician)
- "The most effective advertising reaches the largest number of people. Promos are limited because they reach only a few people." (Jeweler)
- "Promotion is becoming much more important than advertising since customers must act on it right away." (Clothier)

Q18. When doing promotions, businesses try to get the most out of their advertising dollars. What kinds of methods might you use to the most out of your promotion dollars?

"I always try to sell enough (dolls) at exhibits to cover costs and make a profit." (Doll maker)

"I am involved in a cooperative effort with other small businesses in complimentary lines of work. (Health clinician).

"I switched my newspaper contract from weekly to bulk; I bought radio time on an ROS basis, but made the station spread them out during the day so that drive time would be included. I have also looked at alternatives such as smaller (newspaper) ads, shorter radio spots, and Val-Pak (direct mail)." (Clothier)

Q18a. What are the advantages and disadvantages of the strategies (cited in question 18) used?

"If I can sell enough to cover expenses, I don't go into debt, but sometimes I don't make any sales." (Doll maker)

"The major advantage of the co-op arrangement is sharing the cost with other businesses, but it is hard to work with other shops since we have a hard time agreeing on goals and strategies." (Health clinician)

"I felt I got a little more out of my advertising dollar." (Clothier)

Creative Strategy and Execution Issues:

Q19. Who actually writes the ad or promotion material for your firm?

All owners reported planning and writing their own material, sometimes in conjunction with the business partner. In addition, the two retail stores used some print ad materials provided by the manufacturers of the products they sell.

Q20. How does your advertising or promotion material get produced (i.e. who does the technical work)?

Milliner and doll maker did their own work, which primarily consisted of handmade flyers duplicated on a xerox machine. Chiropractor used production services provided by the Yellow Pages and had some material typeset by a personal friend. Health clinician used a desktop publishing program and had a copy shop provide duplicates. Jeweler and clothier used ad services of the local newspaper, for a small fee. Clothier also had radio station produce a spot, the cost of which was included in the media package.

Q21. Did you use any techniques minimize the production costs associated with your advertising or promotion?

"I did my own artwork (line drawing)." (Milliner)

"I had a friend do artwork on the computer." (Health clinician)

"I did my own layout using clip art from manufacturers and old newspaper ads. I have also used myself and employees to speak or appear in the ads." (Clothier)

"We might run a smaller (newspaper) ad." (Jeweler)

(Others who used paid advertising relied on the services provided by the media and were not as concerned with the production cost as they were about the total cost of the promotion package.)

Q22. Do you use any techniques to enhance or improve your advertising and promotion? What are they?

"The use of pictures helps a lot." (Clothier)

"I use a display technique (for exhibitions) taught to me by another professional." (Doll maker)

"Pictures are good, because people do not read a lot of copy." (Milliner)

"I haven't used it, but I think color really improves ads." (Milliner)

"I think it is important to have ads professionally typeset, rather than typing and xeroxing them." (Health clinician).

"I chose an unusual border to make my (Yellow Pages) ads stand out." (Chiropractor)

Q23. How is the style for your advertising or promotions chosen?

What is the impact of co-op opportunities, seasonal sales?

"The style is chosen based on what appeals to my customers." (Milliner)

"I just use the suggestions provided by the (Yellow Pages) representative." (Chiropractor)

"Our style depends on the season, especially certain holidays. We are also very concerned with service and quality. We sometimes base our ads on slicks provided by manufacturers. Co-op advertising is becoming more difficult to do because sometimes the manufacturer wants you to promote his entire line, and we are only able to carry certain items." (Jeweler)

"Our ads have become very price-oriented. We find this is necessary to get customers into the store and to compete with the malls. We hope we have been around long enough that quality image is not a problem." (Clothier)

"Co-op opportunities for the small retailer have been greatly reduced, especially over the last ten years. The return used to be substantial, but now it is negligible. The system is slanted toward the big fellows who can carry a lot of merchandise and advertise a lot. The effort is hardly worth it."
(Clothier)

Evaluation Issues:

Q24. How do you keep track of how well your advertisements or promotions work?

"I look at sales records." (Milliner)

"I note customer traffic and appointments." (Health clinician)

"I don't keep track." (Doll maker)

"I document all inquiries and sources of information."
(Chiropractor)

"We compare sales figures to the same period last year." (Jeweler)

"We tally the volume of advertised items sold after an ad runs. If there is a coupon, we count the number of coupons redeemed. We also keep track of the previous year's promotion dates on a planning calendar."
(Clothier)

Q25. Have you attempted to find out how people react to the style and tone of your advertising?

"We only know if customers mention the ad in the store." (Jeweler)

"Yes. We question customers informally." (Clothier)

"No. I only keep track of appointments and inquiries." (Health Clinician)

All others replied "No."

Q26. Would you say you advertise too much, too little or just about the right amount?

All except the clothier believed they advertised too little. Jeweler commented, "You can never advertise too much." Clothier believed he had "just about the right amount" of advertising.

Q27. Are you satisfied with the level of sales, profits or customer traffic experienced by your firm? What would you like to see?

Uniformly, all firms desired more sales, profits and customers. Clothier was satisfied with the volume of customers, but wanted to increase customer base to "include more blue-collar types."

Marketing Environment Issues:

- Q28. How would you describe the degree of competition faced in your industry?

Both store retailers (jeweler and clothier) believed they were in intensely competitive industries. They felt directly threatened by chain stores and discounters. The milliner, doll maker and health clinician thought that competition was low - moderate, partially due to the uniqueness of the products/services and/or customers served. (They were more oriented toward carving out a very specialized niche in the market.) The chiropractor was not sure.

- Q29. Do you keep track of competitors advertising and promotions? If yes, how do you react to their efforts? Are you aware that they react to your efforts?

Both milliner and doll maker replied "no," although milliner stated than she planned to do so in the future.
 "Yes. I know what everyone does." (Health clinician)
 "Yes. In fact, I may copy strategies that competitors use, but I am not sure if they copy me." (Chiropractor)
 "Yes. I make notes of what competitors are doing, but I don't copy." (Jeweler)
 "I keep up with competitors ads and I must admit that I may copy other's strategies. I try to beat the competition to the punch by offering earlier sales, deeper discounts, etc." (Clothier)

- Q30. How has the general state of the economy (i.e. recession) affected your firm?

"There has been no effect. I believe people spend when they want to." (Milliner)
 "No effect. That is because I keep my prices reasonable. I price below my competitors for comparable work." (Doll maker)
 "The poor economy has actually seemed to improve my business." (Health clinician)
 "The recession has not affected my business because most of my clients have jobs and (health) insurance." (Chiropractor)
 "The economy effects how much product you can buy. Sales are down so I'm buying less." (Jeweler)
 "The recession economy has pushed my sales down 8-15%. I am forced to sell more off-price." (Clothier)

Q31. What actions have you taken to protect the viability of your firm?

"I started showing at more (trade and hobby) shows."

(Doll maker)

"I plan to do a little more promotion. I held an open house. I also got a lot of referral business after handing out some magnetic calendars." (Chiropractor)

"I plan to hire a professional marketing and public relations person." (Health clinician)

"I have cut back on advertising and overhead costs."

(Jeweler)

"I have considered joining an (expensive) merchandise buying service, so that I can take advantage of volume discounts." (Clothier)

Q32. What concerns do you have about the larger firms in your industry?

(Milliner and health clinician felt that their uniqueness precluded concerns about larger firms.)

"Large firms affect us, especially when they are cutting prices. This is why we emphasize quality and service." (Jeweler)

"I am concerned about firms that are large, have steady customers, and a better reputation." (Doll maker)

"I am concerned that larger firms try to force clients to accept their philosophies and techniques. But I am not afraid of them." (Chiropractor)

"Large firms can buy goods in volume and take advantage of more volume discounts. I see large firms getting larger and small ones getting smaller. A lot (of small firms) have already gone under. The pie is thinner." (Clothier)

APPENDIX V

SURVEY INSTRUMENT AND RELATED LETTERS

MICHIGAN STATE UNIVERSITY

DEPARTMENT OF ADVERTISING
TELEPHONE (517) 355-2314

EAST LANSING • MICHIGAN • 48824-1212
FAX (517) 356-2309

August 10, 1992

Dear Small Business Entrepreneur,

We need your help!

As you are probably aware, in the last few years, more attention has been directed at the development and survival of small businesses. We are interested in identifying strategies that can help small firms become more competitive in today's economy.

Your firm is one of a small number that was chosen at random to participate in a survey project. Because your firm is an important part of the economic vitality of the United States, we could benefit from your experience and expertise. Your opinions are valuable!

We are interested in finding out how marketing problems are solved in firms like yours. Within the next few days, you will receive a brief questionnaire to fill out and return to us.

Your participation in this project is voluntary and your anonymity is guaranteed. There is no chance that you or your firm's identity will be associated with a particular questionnaire. All collected information will be reported in summary form only; no individual firms or persons will be identified. Please look for our mailing within the next week.

We would be happy to answer any questions about this project. Results of the research will be made public at a later date. Please call (313) 273-9114 or write the above address for more information.

Thank you very much for your assistance!

Sincerely,


Judy L. Foster
Project Director

MICHIGAN STATE UNIVERSITY

DEPARTMENT OF ADVERTISING
TELEPHONE (517) 335-2314

EAST LANSING • MICHIGAN • 48824-1212
FAX (517) 336-2389

August 17, 1992

Dear Small Business Entrepreneur,

We need your help!

As you are probably aware, in the past few years, more attention has been directed at the development and survival of small businesses. We are interested in identifying strategies that can help small firms become more competitive in today's economy.

Currently, we are studying how marketing programs are developed in small businesses. The information gathered will be used to help small firms solve marketing problems.

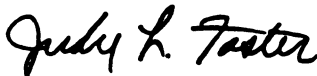
Your firm is one of a small number in the state that was chosen to participate in this project. Because your firm is an important part of the economic vitality of your state, we could benefit from your experience and expertise. So that our research may be of value to small firms like yours, it is important that you complete and return the attached questionnaire. For your convenience, a postage paid envelope is included.

In return for your cooperation with this project, we are offering you complete confidentiality. We guarantee that there is no chance that your firm's identity will be associated with a particular questionnaire. All collected information will be reported in summary form only; no individual firms or persons will be identified. Please complete and return the questionnaire within the next 10 days.

We would be happy to answer any questions about this project. Please call (313) 273-9114 or write the above address for information.

Thank you very much for your assistance!

Sincerely,



Judy L. Foster
Project Director

SURVEY OF SMALL BUSINESS MARKETING PRACTICES

These questions are prepared to be answered by the owner/manager of a small retail or service firm who has the main responsibility for making the firm's marketing decisions. If you do not fit this description, please pass this questionnaire to the correct person.

**TO INSURE YOUR PRIVACY, DO NOT WRITE YOUR NAME OR THE NAME
OF YOUR BUSINESS ON ANY PAGE OF THIS QUESTIONNAIRE.**

Directions: Please circle the number of your response choices.

Q-1. During the past year, who has had the main responsibility for choosing advertising and promotion strategies for your firm?

- 1 THE OWNER/MANAGER OF THE FIRM
- 2 BUSINESS PARTNER(S)
- 3 EMPLOYEE(S) OF THE FIRM
- 4 AN AGENT OR OUTSIDE CONSULTANT
- 5 OTHER (Please specify) _____

Not Somewhat Somewhat Very
Important Unimportant Important Important

Q-2. Small business owners may engage in planning activities related to such areas as inventory, payroll, sales, billing, etc. In your opinion, how important is planning to the day-to-day operation of your firm?

1 2 3 4

Q-3. In your opinion, how important is it to set specific goals for advertising and promoting your firm?

1 2 3 4

Q-4. How important is it to maintain a written plan for advertising and promoting your firm?

1 2 3 4

Q-5. About how much time do you spend each WEEK studying information about advertising and promotion for your firm?

- 1 LESS THAN ONE HOUR
- 2 BETWEEN 1-2 HOURS
- 3 BETWEEN 2-5 HOURS
- 4 BETWEEN 5-10 HOURS
- 5 MORE THAN 10 HOURS

- Q-6. Listed below are a number of sources that you might use in order to get information for planning advertising and promotions for your firm. Please circle the number of any information sources you have used within the last year to aid in making advertising and promotion decisions.

Number/Information Source	Number/Information Source
01 Local colleges	14 Reference manuals
02 Small Business Administration	15 "How-To" handbooks
03 State/local gov't. agencies	16 Catalogs
04 Media/advertising salespeople	17 Yellow Pages
05 Customers	18 Consumer magazines
06 Employees	19 Trade magazines
07 Competitors	20 Newspapers
08 Business associations/clubs	21 Television programs
09 Family members	22 Radio programs
10 Personal friends	23 Business videotapes
11 Management consultants	24 Computer data-bases
12 Marketing consultants	25 University-based Small Business
13 Advertising agencies	Development Center
_____ (Leave blank)	

- Q-7. Different methods have been identified which describe how business people may evaluate alternative strategies for marketing their firms. Several of these methods are listed below. Please circle about how often you use each method.

	Never	Seldom	Frequently	Always
"I use a computer program to simulate my marketing situation."	1	2	3	4
"I rely on past experience."	1	2	3	4
"I basically use my own intuition."	1	2	3	4
"I use statistical techniques, like game theory, to test marketing outcomes."	1	2	3	4
"I look at what my competitors are doing."	1	2	3	4
"I rely on the suggestions of family and friends."	1	2	3	4
"I draw decision trees to predict probable outcomes."	1	2	3	4
"I use advice from business contacts."	1	2	3	4
"I use guesswork to figure what might be most effective."	1	2	3	4

- Q-10. Listed below are a number of promotion opportunities that are commonly used in business marketing. Some of these opportunities may be more or less valuable than others, depending upon your particular marketing situation. Please circle how valuable you believe each opportunity is for your firm at the present time.

		Not at all Valuable	Not Very Valuable	Somewhat Valuable	Very Valuable
01	WORD-OF-MOUTH PROMOTION	1	2	3	4
02	DAILY NEWSPAPER ADS (Mon. - Sun.)	1	2	3	4
03	WEEKLY OR COMMUNITY NEWSPAPER ADS	1	2	3	4
04	"SHOPPER" PAPER ADS (These papers carry coupons and ads only.)	1	2	3	4
05	WEEKEND NEWSPAPER MAGAZINES/SUPPLEMENTS	1	2	3	4
06	TV GUIDE ADS	1	2	3	4
07	YELLOW PAGES ADS	1	2	3	4
	DIRECT MAIL:				
08	with Coupons	1	2	3	4
09	without Coupons	1	2	3	4
10	LOCAL MAGAZINE ADS	1	2	3	4
11	FLYERS/HANDBILLS/LEAFLETS	1	2	3	4
12	BILLBOARD ADS	1	2	3	4
13	RADIO STATION ADS	1	2	3	4
	TELEVISION ADS:				
14	on local TV stations	1	2	3	4
15	on Cable Television Stations	1	2	3	4
16	BROCHURES OR BOOKLETS	1	2	3	4
17	NEWSLETTERS OR BULLETINS	1	2	3	4
18	WINDOW POSTERS	1	2	3	4
19	SIGNS OUTSIDE OF ESTABLISHMENT	1	2	3	4
20	IN-STORE DISPLAYS	1	2	3	4
21	PREMIUM GIFTS (Such as coffee mugs, key rings bumper stickers, ink pens, calendars, magnets)	1	2	3	4
22	BUSINESS CARDS	1	2	3	4
23	PERSONAL SALES PITCHES	1	2	3	4

- Q-11. How important is each of the following factors when deciding where to place your advertising/promotion message (for example, in a newspaper, on radio, on a T-shirt, in a brochure or flyer)?

		Not Important	Somewhat Unimportant	Somewhat Important	Very Important
A.	Characteristics of current customers.	1	2	3	4
B.	Characteristics of potential customers.	1	2	3	4
C.	Competitors' promotion strategies.	1	2	3	4
D.	Whether I can afford the medium/channel.	1	2	3	4
E.	Whether the desired medium/channel projects a positive image of my firm.	1	2	3	4
F.	The size of my promotion budget.	1	2	3	4
G.	Co-op advertising requirements.	1	2	3	4

- Q-12. About how frequently does your firm engage in paid advertising or promotion?

- 1 DAILY
- 2 WEEKLY
- 3 MONTHLY
- 4 ONLY ON A SEASONAL/HOLIDAY BASIS
- 5 SELDOM
- 6 NEVER (If you selected this response, please proceed to question 16.)

Q-8. Please indicate the degree to which you agree or disagree with the three following statements.

	Strongly Disagree	Disagree Somewhat	Agree Somewhat	Strongly Agree
8a. "I believe I must keep costs at a minimum when promoting my firm."	1	2	3	4
8b. "Most low budget advertising looks cheap and tacky."	1	2	3	4
8c. "Low cost advertising tends to project a positive image of the firm."	1	2	3	4

Q-9. How important is each of the following factors when deciding how much to spend on advertising and promotion?

	Not Important	Somewhat Unimportant	Somewhat Important	Very Important
A. Characteristics of current customers.	1	2	3	4
B. Characteristics of potential customers.	1	2	3	4
C. Competitor's spending on promotion.	1	2	3	4
D. Whether I can afford the promotion.	1	2	3	4
E. Whether the desired promotion strategy projects a positive image of my firm.	1	2	3	4
F. Seasonal/holiday sales periods.	1	2	3	4
G. Co-op advertising opportunities (provided through product manufacturers.)	1	2	3	4

Q-13. How important is each of the following factors when deciding what messages to put in your advertising/promotion material?

	Not Important	Somewhat Unimportant	Somewhat Important	Very Important
A. Characteristics of current customers.	1	2	3	4
B. Characteristics of potential customers.	1	2	3	4
C. Competitors' promotion messages.	1	2	3	4
D. Whether the message projects a positive image of my firm.	1	2	3	4
E. Seasonal/holiday sales periods.	1	2	3	4
F. The size of the promotion budget.	1	2	3	4
G. Co-op advertising requirements.	1	2	3	4

Q-14. How important is each of the following methods when preparing or producing your advertising and promotion material? (For example, ad layouts, flyers, brochures, audio tapes, videotapes, signs, etc.) Please circle "NA" if the method does not apply to your marketing situation.

	Not Important	Somewhat Unimportant	Somewhat Important	Very Important	
A. Using the same ad(s) over and over, making changes only when necessary.	1	2	3	4	NA
B. Appearing in my own ads, so I don't have to pay talent.	1	2	3	4	NA
C. Using color in (print) ads.	1	2	3	4	NA
D. Using pictures or photographs in ads.	1	2	3	4	NA
E. Doing your own artwork (by hand).	1	2	3	4	NA
F. Using clip art provided by an ad service.	1	2	3	4	NA
G. Having material professionally typeset.	1	2	3	4	NA
H. Using production services provided by the local media.	1	2	3	4	NA
I. Hiring professional actors/announcers to appear in ads.	1	2	3	4	NA
J. Hiring a professional studio to produce radio or TV commercials.	1	2	3	4	NA

Q-15. Listed below are some methods that business people might use to evaluate the success or failure of their advertising and promotion strategies. Please indicate how often you use each of the methods. (If you never evaluate promotion strategies, check here [] and proceed to question 16.)

	Never	Seldom	Frequently	Always
"I note changes in customer/client traffic."	1	2	3	4
"I listen to customers talk about the promotion."	1	2	3	4
"I keep track of changes in sales volume."	1	2	3	4
"I document all telephone inquiries following the promotion."	1	2	3	4
"I count the number of advertised items sold after an ad runs."	1	2	3	4
"I compare sales/profits with the same period last year."	1	2	3	4
"I ask employees' opinions about the promotion."	1	2	3	4
"I count the coupons or ads returned by customers."	1	2	3	4
"I record the number of times customers mention the advertising/promotion."	1	2	3	4

Q-16. In the space below, describe, as briefly as possible, the type of firm you own or operate. (For example, "women's clothing store" or "carpet cleaning service".)

Q-17. How would you describe the degree of competition that your firm experiences in the local marketplace?

Q-26. Which of the following best describes your age?

- | | | |
|-------------|------------|------------|
| 1) UNDER 18 | 2) 18 - 24 | 3) 25 - 34 |
| 4) 35 - 49 | 5) 50 - 65 | 6) OVER 65 |

Q-27. Please indicate the highest level of education you completed.

- 1 LESS THAN HIGH SCHOOL
- 2 HIGH SCHOOL
- 3 TRADE SCHOOL
- 4 2-YEAR COLLEGE
- 5 4-YEAR COLLEGE
- 6 GRADUATE OR PROFESSIONAL SCHOOL

Q-28. Please circle any of the following marketing education programs you may have participated in:

- 1 U.S. SMALL BUSINESS ADMINISTRATION (SBA) MARKETING SEMINARS
- 2 SMALL BUSINESS DEVELOPMENT CENTER (SBDC) CLASSES
- 3 COLLEGE/UNIVERSITY MARKETING DEGREE PROGRAM
- 4 COLLEGE/UNIVERSITY MARKETING COURSES
- 5 EVENING/WEEKEND MARKETING SEMINARS/WORKSHOPS (Not affiliated with the SBA)
- 6 OTHER (Please specify) _____
- 7 NO FORMAL MARKETING EDUCATION PROGRAM

Q-29. Which of the following best describes your ethnic identity?

- 1 WHITE/CAUCASIAN
- 2 BLACK/AFRICAN AMERICAN
- 3 HISPANIC
- 4 ASIAN/PACIFIC ISLANDER
- 5 NATIVE AMERICAN/AMERICAN INDIAN
- 6 ARABIC/ARAB AMERICAN
- 7 OTHER (Please specify) _____

THANK YOU VERY MUCH FOR YOUR COOPERATION!

MICHIGAN STATE UNIVERSITY

DEPARTMENT OF ADVERTISING
TELEPHONE (517) 335-2314

EAST LANSING • MICHIGAN • 48824-1212
FAX (517) 336-2589

August 27, 1992

Dear Small Business Entrepreneur,

About two weeks ago, we asked you to participate in a survey project investigating small business marketing practices. We greatly appreciate the responses we have received. If you have already returned your questionnaire to us, thank you very much!

If you have not yet returned your copy of the questionnaire, please complete and mail it as soon as possible. Your responses are important as we look at ways to solve small business marketing problems. For your convenience, a postage-paid envelope was included in the survey package. Please be assured that your anonymity is guaranteed. We have no way of knowing which questionnaire is associated with which firm.

Any questions? Please call (313) 273-9114 or write us at the above address.

Sincerely,


Judy L. Foster
Project Director

APPENDIX VI

JUDGES CLASSIFICATIONS FOR SURVEY ITEMS 7, 14 AND 15

APPENDIX VI

JUDGES CLASSIFICATIONS FOR SURVEY ITEMS 7, 14 AND 15

SURVEY ITEM 7:

<u>Factor</u>	<u>Largest N Responses; (Category*)</u>	<u>Inter-Coder Reliability**</u>
Computer Simulations	25 (CR)	1.00
Past Experience	17 (BR)	.68
Intuition	25 (SM)	1.00
Statistical Techniques	20 (CR)	.80
Look at Competitor's efforts	17 (BR)	.68
Suggestions of family/friends	14 (SM)	.56
Decision Trees	22 (CR)	.88
Advice from business contacts	21 (BR)	.84
Guesswork	25 (SM)	1.00

SURVEY ITEM 15:

Note changes in customer traffic	15 (Mod.)	.60
Listen to customers	15 (Sub.)	.60
Track sales volume	22 (Obj.)	.88
Document telephone inquiries	21 (Mod.)	.84
Count advertised items sold	24 (Obj.)	.96
Compare annual sales/profits	24 (Obj.)	.96
Ask employees opinions	16 (Sub.)	.64
Coupon/Ad redemption	25 (Obj.)	1.00
Record customer mentions	18 (Mod.)	.72

*Category assignment based on judges responses, where:

CR = Classical Rational;
 BR = Bounded Rationality;
 SM = Social Model;
 Obj. = Objective method
 Mod. = Moderately objective method
 Sub. = Subjective method

 Note: 25 small business owners; marketing professors and students responded to these items

**Where reliability = $\frac{V_t - V_e}{V}$

APPENDIX VI (Cont'd.)

SURVEY ITEM 14

<u>Factor</u>	<u>Largest N Responses; (Category*)</u>	<u>Inter-Coder Reliability**</u>
Use same ad repeatedly	25 (CM)	1.00
Appear in own ads	22 (CM)	.88
Use color	22 (CE)	.88
Use pictures/photos	20 (CE)	.80
Do own artwork	25 (CM)	1.00
Use clip art	17 (CM)	.68
Professional typesetting	15 (CE)	.60
Use local media production services	18 (CM)	.72
Hire professional talent	25 (CE)	1.00
Hire professional studio	25 (CE)	1.00

*Category assignment based on judges responses, where:

CM = Technique identified as a cost minimizer

CE = Technique identified as a cost enhancer

Note: 25 small business owners; marketing professors and
students responded to these items

**Where reliability = $\frac{V_t - V_e}{V}$

APPENDIX VII

**INSTRUCTIONS FOR JUDGING ITEMS LISTED IN
QUESTIONS 7, 14, AND 15 ON THE SURVEY**

APPENDIX VII

**Instructions for Judging Items Listed in Questions
7, 14, and 15 of the Survey**

Your help is needed!

Please take a few moments to respond to the items on these pages. Your responses are valuable in completing a research project. Return your completed responses to Judy Foster Davis.

Different methods have been identified which describe behaviors business people use in evaluating alternative strategies for marketing their firms. Several of these methods are listed below. Some of these methods may be considered very objective and are characterized by rational thought and analysis. Other methods may be considered much more subjective, characterized by intuitive thinking and "gut" feelings. Other methods fall somewhere between the two extremes.

Based on your personal opinion, please indicate whether you believe the methods described below represent:

- (1) objective (rational) behavior;
- (2) moderately objective behavior;
- (3) subjective (intuitive) behavior.

For each of the items below, write the number (1, 2, or 3) of your response choice in the blank following each statement.

1. "I USE A COMPUTER PROGRAM TO SIMULATE MY MARKETING SITUATION." _____
2. "I RELY ON PAST EXPERIENCE." _____
3. "I BASICALLY USE MY OWN INTUITION." _____
4. "I USE STATISTICAL TECHNIQUES, LIKE GAME THEORY, TO TEST MARKETING OUTCOMES." _____
5. "I LOOK AT WHAT MY COMPETITORS ARE DOING." _____
6. "I RELY ON THE SUGGESTIONS OF FAMILY AND FRIENDS." _____
7. "I DRAW DECISION TREES TO PREDICT PROBABLE OUTCOMES." _____
8. "I USE ADVICE FROM BUSINESS CONTACTS." _____
9. "I USE GUESSWORK TO FIGURE WHAT MIGHT BE MOST EFFECTIVE." _____

APPENDIX VII (Cont'd.)

Listed below are some methods that business people might use to evaluate the success or failure of advertising and promotion strategies. As with the first set of items, these methods represent decision behaviors which may be described as objective (rational), moderately objective, or subjective (intuitive).

Based on your personal opinion, please indicate whether you believe that methods described below represent:

- (1) objective (rational) behavior;
- (2) moderately objective behavior;
- (3) subjective (intuitive) behavior.

For each of the items below, write the number (1, 2, or 3) of your response choice in the blank following each statement:

- 1. "I NOTE CHANGES IN CUSTOMER/CLIENT TRAFFIC." _____
- 2. "I LISTEN TO CUSTOMERS TALK ABOUT THE PROMOTION." _____
- 3. "I KEEP TRACK OF CHANGES IN SALES VOLUME." _____
- 4. "I DOCUMENT ALL TELEPHONE INQUIRIES FOLLOWING THE PROMOTION." _____
- 5. "I COUNT THE NUMBER OF ADVERTISED ITEMS SOLD AFTER AN AD RUNS." _____
- 6. "I COMPARE SALES/PROFITS WITH THE SAME PERIOD LAST YEAR." _____
- 7. "I ASK EMPLOYEES OPINIONS ABOUT THE PROMOTION." _____
- 8. "I COUNT THE COUPONS OR ADS RETURNED BY CUSTOMERS." _____
- 9. "I RECORD THE NUMBER OF TIMES CUSTOMERS MENTION THE ADVERTISING OR PROMOTION." _____

APPENDIX VII (Cont'd.)

Assume that a person is responsible for making the advertising decisions for a small business. This person is responsible for developing and producing the firm's advertisements and for setting the firm's advertising budget. Listed below are some techniques which may, over time, REDUCE or INCREASE costs associated with preparing and producing advertisements.

Based on your opinion, please indicate by using a PLUS (+) sign, those techniques which tend to INCREASE the cost of advertisements; use a MINUS (-) sign to indicate techniques which tend to REDUCE the cost of advertisements.

Write your response (+ or -) in the blank space following the description of the each technique:

1. USE THE SAME AD OVER AND OVER, MAKING CHANGES ONLY WHEN NECESSARY. _____
2. APPEAR IN MY OWN ADS, SO I DON'T HAVE TO PAY TALENT. _____
3. USE COLOR IN (PRINT) ADS. _____
4. USE PICTURES OR PHOTOGRAPHS IN ADS. _____
5. DO YOUR OWN ARTWORK (BY HAND). _____
6. USE CLIP ART PROVIDED BY AN AD SERVICE. _____
7. HAVE ALL MATERIALS PROFESSIONALLY TYPESET. _____
8. USE PRODUCTION SERVICES PROVIDED BY THE LOCAL MEDIA. _____
9. HIRE PROFESSIONAL ACTORS/ANNOUNCERS AS TALENT IN ADS. _____
10. HIRE A PROFESSIONAL STUDIO TO PRODUCE RADIO OR TV ADS. _____

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